



XTEP INTERNATIONAL HOLDINGS LIMITED  
(Incorporated in the Cayman Islands with limited liability)  
SEHK stock code: 1368



2023

**INTERIM REPORT**

## ABOUT THE GROUP

Xtep International Holdings Limited (SEHK stock code: 1368) is a leading multi-brand sportswear company listed on the Main Board of the Hong Kong Stock Exchange in 2008. The Group principally engages in the design, development, manufacturing, sales, marketing and brand management of sports products covering footwear, apparel and accessories for adults and children. With a diverse brand portfolio encompassing the core Xtep brand, K-Swiss, Palladium, Saucony and Merrell to strategically target the mass market, athleisure and professional sports segments, the Group has an extensive global distribution network with more than 8,200 stores in Asia-Pacific, North America and EMEA.



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## INTERIM RESULTS AT A GLANCE

**Revenue**

RMB  
6,522 m ▲ 14.8%

**Profit attributable to ordinary equity holders**

RMB  
665 m ▲ 12.7%

**Interim dividend per Share**

HK  
13.7 cents

(Payout ratio: 50.0%)

**Net asset value per Share**

RMB  
3.34

(As at 31 December 2022: RMB 3.15)



INTERIM RESULTS AT A GLANCE



## FIVE-YEAR FINANCIAL SUMMARY

For the six months ended 30 June

	2023	2022	2021	2020	2019
<b>Profitability data (RMB million)</b>					
Revenue	6,522.4	5,683.6	4,134.9	3,679.1	3,356.9
Gross profit	2,797.1	2,386.8	1,729.4	1,489.1	1,497.3
Operating profit	986.6	921.7	683.6	500.7	717.3
Profit attributable to ordinary equity holders	665.4	590.4	426.5	247.9	463.0
Basic earnings per Share (RMB cents) (Note 1)	26.36	23.47	17.09	10.10	20.19
<b>Profitability ratios (%)</b>					
Gross profit margin	42.9	42.0	41.8	40.5	44.6
Operating profit margin	15.1	16.2	16.5	13.6	21.4
Net profit margin	10.2	10.4	10.3	6.7	13.8
Effective tax rate	26.8	33.2	34.7	39.6	32.0
Return on average total equity holders' equity (annualized) (Note 2)	15.7	14.6	11.5	7.1	15.2
<b>Operating ratios (as a percentage of revenue) (%)</b>					
Advertising and promotional costs	13.2	10.2	10.6	10.8	13.4
Staff costs	10.0	11.9	12.4	12.4	10.8
R&D costs	2.7	1.9	2.5	2.8	2.4

As at 30 June

	2023	2022	2021	2020	2019
<b>Assets and liabilities data (RMB million)</b>					
Non-current assets	4,648.8	3,907.7	3,682.0	3,628.2	1,438.6
Current assets	11,974.4	11,891.5	8,936.0	9,310.9	9,238.7
Current liabilities	5,832.5	4,916.5	3,295.5	3,810.9	3,458.3
Non-current liabilities	1,993.2	2,552.6	1,677.9	2,041.7	320.7
Non-controlling interests	69.1	52.9	70.3	88.1	64.5
Total equity holders' equity	8,728.4	8,277.2	7,574.3	6,998.4	6,833.8
<b>Asset and working capital data</b>					
Current asset ratio	2.1	2.4	2.7	2.4	2.7
Gearing ratio (%) (Note 3)	19.7	18.9	15.4	18.1	16.7
Net asset value per Share (RMB) (Note 4)	3.34	3.16	2.91	2.81	2.76
Average inventory turnover days (days) (Note 5)	115	106	79	94	81
Average trade receivables turnover days (days) (Note 6)	106	102	112	137	107
Average trade payables turnover days (days) (Note 7)	123	138	114	142	90
Overall working capital days (days)	98	70	77	89	98
Rolling average inventory turnover days (days) (Note 8)	107	93	81	74	86
Rolling average trade receivables turnover days (days) (Note 9)	92	87	110	105	95
Rolling average trade payables turnover days (days) (Note 10)	111	112	123	108	102
Rolling overall working capital days (days)	88	68	68	71	79

NOTES:

- The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.
- Return on average total equity holders' equity is equal to the profit attributable to ordinary equity holders of the Company for the period divided by the average of opening and closing total equity holders' equity.
- The calculation of gearing ratio is based on the total borrowings divided by the total assets of the Group at the end of the period.
- The calculation of net asset value per Share is based on the total number of Shares in issue at the end of the period.
- Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 183 days.
- Average trade receivables turnover days is equal to the average of opening and closing trade receivables divided by revenue and multiplied by 183 days.
- Average trade payables turnover days is equal to the average of opening and closing trade payables divided by cost of sales and multiplied by 183 days.
- Rolling average inventory turnover days is equal to the average of opening and closing inventory of the 12-month period up to 30 June of the relevant year divided by costs of sales during the corresponding period and multiplied by 365 days (or 366 days in 2020).
- Rolling average trade receivables turnover days is equal to the average of opening and closing trade receivables of the 12-month period up to 30 June of the relevant year divided by revenue during the corresponding period and multiplied by 365 days (or 366 days in 2020).
- Rolling average trade payables turnover days is equal to the average of opening and closing trade payables of the 12-month period up to 30 June of the relevant year divided by costs of sales during the corresponding period and multiplied by 365 days (or 366 days in 2020).

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Ding Shui Po (*Chairman*)  
Ding Mei Qing  
Ding Ming Zhong

### Non-executive Director

Tan Wee Seng

### Independent Non-executive Directors

Bao Ming Xiao  
Wu Ka Chee, Davy  
Chan Yee Wah

## BOARD COMMITTEES

### Audit Committee

Chan Yee Wah (*Chairlady*)  
Tan Wee Seng  
Bao Ming Xiao  
Wu Ka Chee, Davy

### Remuneration Committee

Wu Ka Chee, Davy (*Chairman*)  
Ding Mei Qing  
Bao Ming Xiao

### Nomination Committee

Ding Shui Po (*Chairman*)  
Tan Wee Seng  
Wu Ka Chee, Davy

### Sustainability Committee

Tan Wee Seng (*Chairman*)  
Ding Shui Po  
Ding Mei Qing  
Chan Yee Wah

## COMPANY SECRETARY

Yeung Lo Bun, FCPA

## AUTHORIZED REPRESENTATIVES

Ding Shui Po  
Yeung Lo Bun

## REGISTERED OFFICE

Cricket Square, Hutchins Drive  
P.O. Box 2681, Grand Cayman KY1-1111  
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A, 27/F, Tower A  
Billion Centre, 1 Wang Kwong Road  
Kowloon Bay, Kowloon, Hong Kong

## HEAD OFFICE IN THE PRC

Xiamen Xtep Tower, No. 89 Jiayi Road, Guanyinshan  
Siming District, Xiamen, Fujian Province, PRC  
Postal Code 361008

## LEGAL ADVISER AS TO HONG KONG LAWS

Loeb & Loeb LLP

## AUDITOR

Ernst & Young  
*Certified Public Accountants and  
Registered Public Interest Entity Auditor*

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited  
Suite 3204, Unit 2A, Block 3  
Building D, P.O. Box 1586  
Gardenia Court, Camana Bay  
Grand Cayman, KY1-1100, Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716  
17/F, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## PRINCIPAL BANKERS

Bank of China  
Bank of East Asia  
China Construction Bank  
China Minsheng Bank  
Hang Seng Bank  
HSBC  
Industrial Bank

## COMPANY WEBSITE

[www.xtep.com.hk](http://www.xtep.com.hk)

## CHAIRMAN'S STATEMENT



### Dear Shareholders,

The Chinese government announced a nationwide relaxation of COVID restrictions in December 2022, which has allowed citizens to resume their normal daily lives in a sustained and orderly manner. China's total retail sales of consumer goods returned to growth, recording an increase of 5.8% year-on-year in the first quarter of 2023. Retail sales of the core Xtep brand demonstrated a visible turnaround, achieving a year-on-year growth of around 20% in the first quarter of 2023. Although consumer spending slowed in May as the economic outlook took a downturn amid heightened concerns over weak industrial output and record high youth unemployment, the core Xtep brand maintained its growth momentum in the second quarter, with a high-teens year-on-year increase in retail sales. Overall, sportswear continued to outperform the retail sector in Mainland China during the reporting period. Retail sales of the core Xtep brand continued to show strong resilience. Its high-teens year-on-year retail sales growth in the first half of the 2023 was higher than the 8.2% year-on-year increase in China's total retail sales of consumer goods.

Against a backdrop of increased public health awareness in the wake of the pandemic and ample government support for the sports industry to stimulate continued demand for sportswear, our specialization in functional running products for mass market consumers seeking value for money will enable us to navigate these market adjustments smoothly. We remain optimistic about the medium- to long-term prospects of the sportswear sector in Mainland China.

### PERFORMANCE REVIEW

The Group's solid financial performance in the first half of 2023 is a testament to its resilience, adaptability, and keen understanding of the evolving Chinese market. The Group's revenue increased by 14.8% to RMB6,522.4 million (1H2022: RMB5,683.6 million). Revenue from the core Xtep brand rose by 10.9% to RMB5,429.7 million (1H2022: RMB4,897.6 million). The Group's gross profit margin was 42.9% (1H2022: 42.0%). The Group's operating profit climbed by 7.0% to RMB986.6 million (1H2022: RMB921.7 million). Profit attributable to ordinary equity holders of the Company increased by 12.7% to RMB665.4 million (1H2022: RMB590.4 million). Basic earnings per Share was RMB26.4 cents (1H2022: RMB23.5 cents). The Board has declared an interim dividend of 13.7 HK cents per Share (1H2022: 13.0 HK cents), with an option to receive scrip shares in lieu of cash, which is equivalent to a payout ratio of 50.0% (1H2022: 50.3%).



## CHAIRMAN'S STATEMENT

**15 YEARS OF DEDICATION TO SCALING THE BUSINESS TO NEW HEIGHTS**

This year, we celebrate the 15<sup>th</sup> anniversary of our listing on the Hong Kong Stock Exchange. Since our IPO in June 2008, we have weathered the various business cycles and flourished in the midst of economic uncertainty. In 2019, we made a bold decision to acquire K-Swiss and Palladium and form a joint venture with Wolverine for Saucony and Merrell, enabling Xtep to grow into an established sportswear enterprise with a diversified brand portfolio and global footprint. Today, our brands strategically target the mass market, athleisure and professional sports segments, with more than 8,200 stores in Asia-Pacific, North America and EMEA.

Over the past 15 years, the Company has been committed to maximizing shareholder value and generating lucrative returns for investors. As a constituent of the MSCI China Index and Hang Seng Composite Index Series, our market capitalization has exceeded RMB20 billion, on the back of a soaring 10-fold increase in revenue from 2008. In appreciation of our investors' support, our dividend payout ratio has been higher than the industry average since listing.

Since the Group embarked on a new chapter of adopting a multi-brand strategy, we have demonstrated our operational excellence and capabilities in managing brands in diversified market segments. The core Xtep brand continues to be the Group's key growth driver, delivering solid growth every year after the completion of its restructuring in 2017. Among the four new brands, Saucony impressed the market with its high growth trajectory from 2021, thanks to its competitive product range and perfect alignment with the brand positioning of the core Xtep brand in running. Following a remarkable doubling of revenue in 2022, it became the first new brand to turn a profit this year. Capitalizing on the synergistic growth advantages of the core Xtep brand and the new brands in terms of sales channels, research and development, and marketing resources, we will continue to cultivate the new brands as our next growth curve, with the hope that they will ultimately contribute extraordinary results. Guided by the "Fifth Five-Year Plan" launched in 2021, we will embark on the next phase of our journey with strong confidence.

**MATURING INTO THE VENTURE WITH SOLID SUSTAINABILITY ACHIEVEMENTS**

As the scale of our business continues to grow, we are convinced that the greater the strength, the greater the responsibility in promoting sustainable operations. In July, our MSCI ESG rating was upgraded to "BBB", demonstrating our outstanding progress in ESG practices. While capitalizing on the economic turnaround following China's reopening, we also remained committed to upgrading our sustainability management and creating positive impacts on the environment and society. In addition to advancing green innovation and incorporating new sustainable materials into our sportswear products, we have also devoted efforts to enhancing our suppliers' ESG performance and promoting sports development in Mainland China.

As a leading sportswear company in China, we have spent the last 15 years raising public health awareness and accelerating the development of sports in the country. We have successfully built the largest running ecosystem in Mainland China by cultivating our running R&D capabilities, strengthening ties with professional marathon runners, and fostering a running community. Since 2008, we have actively sponsored more than 1,000 marathon and running events, served approximately 1.9 million professional runners through 50 Xtep Running Clubs, and helped 60 athletes win 292 championships. Our unwavering commitment, expertise and valuable resources in running have set us apart from our peers and allowed us to claim the title of the favorite brand of Chinese runners, paving the way for sustainable growth in the years ahead.

**PLEDGING LONG-TERM VALUE CREATION TO OUR STAKEHOLDERS**

The macroeconomic landscape in the second half of 2023 is clouded by uncertainties surrounding high inflation and ongoing geopolitical tensions. While China's economy and consumption are slowing, our optimism in the resilience and growth potential of the sportswear sector in the long term remains unwavering. Fueled by emerging fitness culture and favorable national policies that support the growing demand for adult and children's sportswear, our expertise in running — the fastest-growing sport of all categories — reinforces our confidence in the future growth of our business. We are committed to maintaining our competitive edge and strong governance as we continue to take the business to new heights.

Finally, I would like to express my sincere gratitude to our shareholders, investors, business partners and customers for their trust and support over the 15-year journey of listing on the Hong Kong Stock Exchange. Their contributions have been critical to our strong financial performance and growth trajectory. I also extend my heartfelt appreciation to my fellow Board members for their guidance and support in navigating the challenging and dynamic landscape we operate in. I look forward to delivering value for our shareholders and positioning our business for long-term success.

**Mr. Ding Shui Po**

*Chairman*

Hong Kong, 23 August 2023

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET DEVELOPMENT

### Marathon events gather pace in Mainland China

Running in Mainland China is picking up pace again since the government eliminated the COVID-19 pandemic control measures which prevented people from gathering in large scale events. As the most rapidly developing mass participation sports event in Mainland China, the revival of marathons is gathering momentum in 2023. The first half of 2023 has witnessed a significant surge in organizing marathons across the country. According to the 2023 Chinese Athletics Association Road Running Work Report, a total of 133 road races across the country have been registered for the first half of 2023, an encouraging sign of a strong recovery from the three-year hiatus. The entire running industry in Mainland China is set to prosper with a fast pace followed by a noticeable increase in the number of marathons in the coming years. It is expected that the number of road races and other related events would reach 2,500 in 2025, equivalent to an increase of 36.8% from the pre-Covid year 2019; while the number of participants representing the mass market runners in marathon events would hit 10 million in 2025. The running boom has led brands to adapt their strategies with more running product launches. Although domestic sportswear brands have achieved an accelerated growth in the running category, maintaining the leadership position among the mass market would be the key determinant of competitiveness and sustainable growth.

### Growing emphasis on functionality and quality

As the recent macroeconomic pressures and decline in consumer confidence have sapped Chinese consumer sentiment, consumers are becoming more discerning and spending more conservatively. According to the 2023 China Consumer Report published by McKinsey, consumers are becoming much savvier about what they purchase, functionality and quality of the product extended their lead as the most important factors influencing consumers' buying behaviour. Domestic brands are now preferred over foreign ones on both criteria, with 49% of Chinese consumers think domestic brands are of better quality than foreign brands. While Chinese consumers care less about the origin of a brand and more about the benefits and features it can deliver, domestic companies which react faster to trends and are closer to the consumers will be able to outshine their peers.



## MANAGEMENT DISCUSSION AND ANALYSIS

**Robust recovery of offline spending**

When COVID restrictions came into force at the start of 2020, offline spending levels plummeted, e-commerce was massively accelerated by the pandemic as online shopping became the default shopping experience for consumers in Mainland China. With the pandemic now seemingly in the rearview mirror since early January in 2023, this position of dominance has been shaken up by the rising desire for in-person shopping. Consumers have broadly returned to brick-and-mortar stores as they are eager for a real-life experience. According to Win Data, the average daily traffic of shopping malls surged by 33.9% year-on-year in the first quarter of 2023, marking the best first quarter since the pandemic outbreak in 2020. In light of slowing online sales, Chinese e-commerce giants JD.com and Alibaba remained tight lipped about their GMV figures for this year's 618 festival. As brick-and-mortar is making a powerful comeback this year, shoppers are looking at it as an extension of e-commerce offerings. Brands need to be prepared to attract and retain customers effectively through offering immersive and compelling physical experiences.

**BUSINESS REVIEW****New generation "160X 5.0 PRO" and "160X 5.0" collections released**

The new generation "160X 5.0 PRO" and "160X 5.0" under the "160X" championship running shoes series were announced in its product launch conference held at the Great Wall in Beijing in August 2023. Equipped with the "XTEP ACE" midsole technology and T700 heterogeneous carbon plate, the "160X 5.0 PRO" is lighter in weight and provides professional runners with outstanding rebound capability and around 20% higher forefoot propulsion compared to "160X 3.0 PRO". Both models in the new collection adopt new elastic materials with high intensity, offering elite runners with perfect cushioning and breathability.

**Championship running shoe series "160X" favored among top Chinese athletes**

The "160X" carbon fiber plate running shoe series has seen the birth of champions since its launch in 2019. Thus far, the series has helped 60 Chinese athletes claim 292 championships and break national records. In the first half of 2023, the Xtep "160X" running shoe remained the first choice of footwear among the top 100 male athletes who participated in Chinese marathons during the period<sup>1</sup>. The wear rate of Xtep running shoes worn by participants who finished the Xiamen Marathon and Wuhan Marathon also ranked top among all brands<sup>2</sup>.

<sup>1</sup> Source: 98 Run — footwear worn by top 100 male marathoners in Mainland China in the first half of 2023

<sup>2</sup> Source: Joyrun and RunYeah



160X 5.0

160X 5.0 PRO

MANAGEMENT DISCUSSION AND ANALYSIS

Running shoes worn by the top 10 male athletes in Chinese marathons in the first half of 2023<sup>3</sup>:



Enhanced “Reactive Coil” and “Ultra Fast” collections

Following the launch of “Reactive Coil PRO” in May 2022, we unveiled the “Reactive Coil 10” and “Reactive Coil 10 PRO” in March and May 2023, respectively. Both series employ more sophisticated cushioning technology to achieve perfect integration of materials and structure. The “Ultra Fast 4.0” series, launched in May 2023, is lighter in weight and feature a thicker midsole to offer more balanced and adaptable training experiences to runners of different skill levels.

<sup>3</sup> Sources: 98 Run — footwear worn by top 100 male marathoners in Mainland China in the first half of 2023



MANAGEMENT DISCUSSION AND ANALYSIS

Marathon events and sports celebrities

As the impact of COVID-19 has gradually diminished, we have witnessed the resumption of numerous marathons and running events in the first half of 2023. Such events included the 2023 Xiamen Marathon — a highly prestigious World Athletics Platinum label marathon sponsored by Xtep, and Gold label marathons such as Chongqing Marathon, Wuxi Marathon and Taiyuan Marathon. During the period, we sponsored 10 marathons in total amidst the growing demand for running events in Mainland China.

Following the success in assisting Chinese runners to break the national marathon record at the 2023 Wuxi Marathon in March – a record that had stood for over 15 years, the “160X” championship running shoe series continued to be one of the best performing running shoe collections in domestic and international marathons, witnessing history created by our sponsored runners and achieving stunning wear rates.

The Xtep “160X” series assisted runners in claiming men’s and women’s titles at the Beijing Half Marathon, the Wuhan Marathon, Taiyuan Marathon, Baotou Marathon, and the Hohhot Marathon. In April, He Jie, Yang Shaohui and Dong Guojian claimed the top three positions of the men’s marathon race in Wuhan, making it the first time that Chinese athletes and sports brand stepped on the winner’s podium at the Wuhan Marathon. We also witnessed male runners take the top three positions at the Beijing Half Marathon, with Brian Kwemol Kirui breaking the domestic half-marathon record. In addition, Yang Dinghong set a match record while claiming the championship at the Hohhot Marathon in July.

Our running shoes also shined brightly at international marathons. Helah Kiprop wore the “160X 2.0” to win the Paris Marathon, making Xtep the only Chinese brand worn by the top three winners of the event. Meanwhile, the “160X 2.0” also helped Nazret Weldu to finish sixth at the Boston Marathon. The “160X” thereby claimed top ranking among Chinese running shoes worn by female competitors at one of the six World Marathon Majors.

Wuhan Marathon



Helah Kiprop

Paris Marathon 2:23:19



MANAGEMENT DISCUSSION AND ANALYSIS

List of marathons and running events sponsored by Xtep:



Performance collection



## MANAGEMENT DISCUSSION AND ANALYSIS

**Basketball***New spokespersons*

In April and May 2023, we were delighted to announce the appointment of Malik Beasley and Zhang Zhenlin as the new spokespersons of Xtep Basketball, respectively. Zhenlin is actually the first Chinese player in the history of CBA Finals to achieve a triple-double.

*Upgraded basketball shoe series "JLIN 3" and signing tour*

A year after the success of the first signing tour of the "JLIN" series, Xtep started the second signing tour in June for Jeremy Lin across five cities including Chengdu, Zhengzhou, Wuhan, Shenzhen and Changsha. During the tour, Jeremy closely interacted with fans and signed their pair of new "JLIN 3" basketball shoes, which were launched in April 2023. Featuring "X-TEP BOOOM" rebound technology and "CARBON FIBER X-FORCE PLATE", "JLIN 3" provides over 80% rebound capability and exceptional propulsion. With lateral support offered by thermoplastic polyurethanes, "JLIN 3" can effectively enhance a basketball player's direction-changing ability.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Lifestyle***"HALF-SUGAR" women's collection*

While the rise of "She-Power" has significant impact on the female consumption trend, we are committed to keeping abreast of the ever-changing female apparel market through our "HALF-SUGAR" women's collection. In July, we released the "HALF-SUGAR: DISCOVER GIRL'S PLANET" series in collaboration with Ave Leung, a crossover artist and director of G5M6. Through continuous product development and collaboration with various artists, the "HALF-SUGAR" collection will unveil even more clothing series that cater to women's quest for style.

*Celebrity spokespersons<sup>4</sup>*

Appointment of celebrity spokespersons effectively maintains our brand awareness and reinforces our appeal among the younger generation.

<sup>4</sup> Note: Photos of spokespersons are presented in reverse order according to contract signing time



Wang Hedi

Fan Chengcheng

Jeremy Lin

Jiro Wang

Nicholas Tse



## MANAGEMENT DISCUSSION AND ANALYSIS

**Retail management and branding***Retail network*

Our ninth-generation stores with larger store size and vibrant visual merchandising, such as lighting control, AI robots, digital signage and rising stages, have drastically enhanced our brand image and allowed us to have an increase in foot traffic and cross-selling ratio. Focusing on digital-first engagement with consumers, the new-format stores have also achieved remarkable results in attracting and connecting with younger consumers.

As at 30 June 2023, there were 6,443 Xtep Adult branded stores mainly operated by authorized distributors in Mainland China and overseas.



Number of Xtep adult branded stores in Mainland China and overseas as at 30 June 2023:

**6,443**

**Xtep Kids**

Following the comprehensive restructuring of Xtep Kids – spanning products to retail network management, and an announcement by the Chinese government to aggravate the weight of physical tests in the grading of children in primary and secondary schools, we have seen a significant rise in demand for our children's sportswear in recent years, which in turn has enabled the Xtep Kids business to sustain strong growth momentum. As at 30 June 2023, there were 1,588 Xtep Kids stores in Mainland China (31 December 2022: 1,520), mainly operated by authorized distributors of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Product launch with proven technologies to foster training*

In collaboration with the China Space Museum, Xtep Kids launched the “Xing Ren 1.0” and “Reactive Coil 10” running shoes in February and March, respectively. Employing Xtep’s proprietary 42C elastic technology, “Xing Ren 1.0” adopts TOPOS TECH with three times stronger support for increasing torsional resistance and for allowing young runners to perform at their best. With regard to “Reactive Coil 10,” it is embedded with “X-DURA” wear-resistant rubber and features – “ULTRA-WIDESHAPE” to protect children from the impact of landings as well as improve their running performance.

In April, Xtep Kids appeared in the “Douyin new power of trendy children” SS23 Collection Show at the Shanghai Fashion Center, under the theme of “Teenagers in a Big Country, The Future Here I Come”. The new series, inspired by aerospace, feature new functional fabrics and uses technology to combine sports with fashion, resulting in comfort and youthful vigor.

### *Sports event sponsorships to help children maintain their well-being*

Through the “Blazing Sun Scheme” launched in July last year, Xtep Kids has hosted an online one-kilometer race where young participants used various workout apps to track their performance, both indoor and outdoor. Involving students from 68 schools in 14 provinces, the event assisted over 86% of the competitors to achieve better results. In addition to the online challenge, the scheme has organized over 30 activities since March for children in 19 cities including Xiamen, Changsha and Taiyuan.

We have also encouraged children to realize their street dance dreams and demonstrate their vitality. For the fourth consecutive year, Xtep Kids has partnered with the China Hip-Hop Union Committee (“CHUC”) to sponsor the “Beyond Da Stage World Kids Street Dance Game,” which is held annually in June. Awarded “The Best Partner of the Year” by CHUC, Xtep Kids will continue to organize street dance events and competitions so as to provide a platform for more Chinese youngsters to showcase their passion.



## MANAGEMENT DISCUSSION AND ANALYSIS

**Sustainability***Launch of eco-friendly T-shirts*

To reduce its carbon footprint as an effort for environment care, Xtep put carbon footprint label on the T-shirt series with 76% polylactic acid content, announcing the carbon footprint value of the T-shirt series. According to assessments conducted by the China Textile and Apparel Industry Full Life Cycle Evaluation Working Group, the carbon footprint of the T-shirt series is only 7.85kgCO<sub>2</sub> eq/ piece under the incineration process, which is equivalent to a reduction in carbon emissions of approximately 47.7% compared with cotton T-shirts and about 90.4% compared with polyester fiber T-shirts. In addition, Xtep has also launched an eco-friendly T-shirt series made of recycled fibers that originate from plastic bottles. The series was made available as licensed products for the Wuhan Marathon in April.

*The 31<sup>st</sup> Chengdu FISU Summer World University Games sponsorship*

The Chengdu FISU World University Games took place from 28 July to 8 August 2023. Xtep, as an official partner of the Games, exclusively provided equipment support to help young people realize their dreams as well as to showcase the power of youth to the world.

*Collaboration with China Next Generation Education Foundation*

Xtep is committed to charitable works that facilitate the all-round healthy development of children. On 15 June 2023, the Group established a strategic partnership with China Next Generation Education Foundation ("the Foundation") and announced that it would further donate RMB100 million worth of sportswear in the next four years to continuously support youth athletics development in underprivileged areas. Since 2017, Xtep has donated sportswear worth nearly RMB200 million in total together with the Foundation.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Athleisure



While geopolitical uncertainties and high inflation continued to cast a shadow over the overseas business growth of K-Swiss and Palladium, China's reopening has provided a silver lining to the performance of the domestic business. In the first half of 2023, revenue from the athleisure segment increased by 18.9% to RMB748.6 million, accounting for 11.5% of the Group's revenue.

### Business development

The insightful market data collected from the K-Swiss pilot stores on customer preferences has provided a clear operational direction for the Group's future growth plans. K-Swiss and Palladium underwent a complete rebranding in Mainland China, upgrading their product portfolios and shop layouts, successfully raising brand awareness and significantly increasing shop productivity. During the period, we continued to accelerate store openings in higher-tier cities in Mainland China. As at 30 June 2023, there were 80 K-Swiss stores in Asia-Pacific, including Mainland China.

The unremitting efforts made by Palladium to improve its product offering and retail network have enhanced its appeal to the younger generation. Targeting the high-end consumer segment in Mainland China, the brand opened more stores in premium shopping malls. As at 30 June 2023, there were 60 Palladium stores in Asia-Pacific, including Mainland China.



**Zhang Zhizhen**

K-Swiss Spokesperson

**K-SWISS**



## MANAGEMENT DISCUSSION AND ANALYSIS

**Product innovation and marketing**

Destined for tennis greatness, K-Swiss designs state-of-the-art tennis sportswear that helps athletes achieve peak performance. At the Rio de Janeiro stop of the ATP500 tournament held in February, K-Swiss' brand spokesperson, Cameron Norrie, wore the "Ultrashot 3" to claim his fifth ATP title. Another brand spokesperson, Zhang Zhizhen, opened a new chapter in the history of men's tennis in China wearing "Ultrashot 3" after placing among the top 100 players last year. He made history at the Madrid Open in May, becoming the first male player from Mainland China to reach the quarter-finals of the ATP Masters 1000 in Madrid. In June, he continued to break records by becoming the first Chinese player since 1937 to reach the third round of a men's singles tournament at a grand slam in France. Leveraging K-Swiss' inherent advantages in tennis, the brand has harnessed the aesthetics of the sport and launched various tennis-inspired collections, offering customers versatile products suitable for a wide range of scenarios.

Palladium continues to revive classic elements in its latest collections to cater to customers' penchant for retro fashion. In February, the brand launched a military-style collection that retains the brand's classic style and embodies the essence of nearly 80 years of workwear culture. In June, the brand also collaborated with Jeremy Lin to launch the "Palladium x Jeremy Lin" No.7 capsule collection, which inherits the genes of Palladium's 70s retro basketball shoes. Inspired by the "Phoenix" basketball shoe, Palladium further improved and recreated its classic elements with the launch of the "PALLALOUVEL" high-top basketball shoe, demonstrating the brand's ability to balance retro and trendy elements in its products.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Professional sports



Possessing solid product capability and synergy with the core Xtep brand, Saucony contributed significantly to the robust growth of the professional sports segment, becoming the first new brand of the Group to achieve profitability. In the first half of 2023, revenue from the professional sports segment realized a year-on-year growth of 119.9% to RMB344.2 million, accounting for 5.3% of the Group's total revenue. The segment also recorded a net profit of RMB9.0 million for the first time.

### Business development

Over the past four years, Saucony has overcome dire challenges brought by the pandemic and achieved brilliant results that exceeded expectations. With impressive store performance and increasing recognition among elite runners, Saucony has demonstrated strong growth potential in Mainland China. To facilitate rapid business expansion, Saucony became the first brand under the Group to utilize the newly opened Xtep Shanghai Operation Center in May. This strategic move enables us to better reach our target consumers in higher-tier cities, stay up to date with the latest market trends, and provide better working experiences and career development opportunities for employees.

We have also continued to expand Saucony's retail network while unveiling its store revamp model in Mainland China. The first third-generation image store was opened at Shanghai Super Brand Mall in June, reflecting an evolution of the store layout from a professional sports image that emphasizes technology and functionality to a comprehensive sports venue that provides consumers with multi-scenario experiences, immersing them in culture and life. As at 30 June 2023, there were 80 Saucony stores and five Merrell stores in Mainland China.



## MANAGEMENT DISCUSSION AND ANALYSIS

**Product innovation and marketing**

As one of the world's top four running shoe brands, Saucony prides itself on its professional quality and advanced technologies. In the first half of 2023, the brand released "Endorphin Elite", its new flagship marathon carbon plate running shoe, and "KINVARA 14" and "TRIUMPH 21" to cater to the needs of professional runners, allowing elites to run comfortably at extreme speeds with ultimate support. With increasing brand exposure and products of excellent design and superior performance, Saucony running shoes have captured the attention of professional runners in Mainland China. Such runners have undoubtedly been impressed by the capability of the brand's footwear as evidenced by the outstanding wear rate at various large-scale marathons. Consequently, Saucony ranked among the top two in the 2023 Wuxi Marathon and Xiamen Marathon, and among the top three in the 2023 Wuhan Marathon and Shenzhen Marathon among all international brands, respectively. With the aim of also supporting aspiring young athletes to achieve their goals, the 2023 Saucony Endorphin Elite Half Marathon was launched in Yunnan in February. A total of 36 young runners wore the "Endorphin Elite" shoes as they raced across the plateau under extreme conditions, constantly challenging themselves as they pursued their running dreams.

As one of the leading brands in outdoor footwear and accessories, Merrell continues to engage customers through high-quality products that feature cutting-edge technology and superior design. Collaborating with "TakeYourTime", a Chinese outdoor culture brand, Merrell invited 20 outdoor enthusiasts to join a product appreciation event in Meilin Mountain in Shenzhen, and to experience the enhanced cushioning grip technology brought by the signature "Moab 3" hiking boot.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations management

#### Supply chain management

Supported by an efficiently managed supply chain, we are committed to maintaining seamless business operations and processes. Through collective sourcing of materials, we strive to optimize the manufacturing processes for footwear and apparel production to maximize production efficiency.

#### *The Group's production capacity allocation*



Following the launch of the first phase of the in-house production facility in Shishi, Fujian Province, the second phase is under construction and is expected to be completed in June 2024. With a total gross site area of approximately 170,000 square meters, the second phase of the facility will be equipped with advanced footwear assembly lines to enhance efficiency.

The new industrial park in Bengbu, Anhui Province, commenced operation in May 2023. Comprising a footwear production facility of approximately 48,000 square meters and an apparel production facility of approximately 25,000 square meters, the industrial park is helping to accommodate the ever-expanding business.

Meanwhile, the logistics park in Jinjiang, Fujian Province, is under construction and is expected to be completed in 2024. With a gross floor area of approximately 240,000 square meters, the logistics park will serve as a central warehouse to effectively facilitate the delivery of finished goods directly to branded retail stores and maximize our operational efficiency.

#### Human resources management

As at 30 June 2023, the Group had approximately 9,300 employees (31 December 2022: approximately 9,800 employees), of which 58.2% were production employees (31 December 2022: 57.8%). Leveraging our robust performance management system, we are committed to attracting and retaining talent. Employees are encouraged to regularly discuss their performance with their supervisors who review their performance and make decisions on promotions and salary adjustments.

We continue to develop the potential of our employees in the workplace and provide them with necessary training. Through the Xtep Talent Center, Professional Talent Development Department, Management Talent Development Department, Talent and Cultural Operation Department and Xtep Online Training Platform, our employees acquire new skills and sharpen existing ones to improve their work performance. As of 30 June 2023, our Xtep Talent Center delivered more than 204,000 hours of online and offline training to employees.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Prospects

Witnessing a running boom gradually gaining momentum in Mainland China, the Group has strategically focused on running since the establishment of the core Xtep brand in 2001. During the COVID-19 pandemic, individuals in China have paid increasing attention to the pursuit of spiritual satisfaction through sports. As a result, the resumption of marathon races following Mainland China's reopening has further accelerated the running craze sweeping the country, bringing hope for the prosperity of the running industry. Although the economic uncertainty has led us to remain cautiously optimistic about the industry outlook in the second half of 2023, the suspension of discretionary spending of the consumers in favor of mass market brands that offer value-for-money products will allow the core Xtep brand to reap the maximum benefit. Our foresight in focusing on running and the favorable market trends is strengthening our confidence in the Group's future growth in the long run.

Leveraging its leading position in professional running products, the core Xtep brand has extended its reach to mass market consumers by offering a comprehensive range of value-for-money products. Its outstanding wear rate in major marathons is expected to continue to increase, which will further enhance its market share in the running segment. We will remain committed to consolidating its running ecosystem and building the largest running community in Mainland China. At the same time, the Group will continue to maximize the synergy between the core Xtep brand and Saucony, from product innovation and the retail network to marketing. As the first of all the Group's new brands to turn a profit, we are hopeful about Saucony's ability to drive growth and capitalize on the growing demand for professional sportswear by accelerating new store openings.

The decline in discretionary spending by consumers in the U.S. and Europe amid rising interest rates has clouded the outlook for the overseas athleisure business. However, the strong growth momentum of K-Swiss and Palladium in Mainland China has boosted our confidence in the sustainable development of the segment. We will continue to accelerate the opening of new stores in higher-tier cities and adjust the product mix according to their respective brand attributes. K-Swiss will launch professional tennis sportswear to emphasize the brand's tennis DNA, while Palladium will launch products reflecting the preferences of younger consumers.

The Chinese government's pledge to stimulate consumption and economic recovery provides new impetus to the retail sector. Encouraged by the measures to revive consumption, we continue to hold a positive view for the long-term prospect of the sportswear sector in Mainland China. As we seek to capitalize on the opportunities presented by the economic recovery, we will also remain committed to advancing our sustainability management and making a positive impact on the environment and the communities in which we operate. As sustainability becomes a top priority in our business planning and strategies, it will guide us towards a sustainable future and help generate higher returns for shareholders.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

## Group Revenue Breakdown by Product Category

The following table sets out the contributions to the Group's revenue by product category:

For the six months ended 30 June

	2023 Revenue		2022 Revenue		Change in revenue (%)
	(RMB Million)	(% of Revenue)	(RMB Million)	(% of Revenue)	
Footwear	3,889.3	59.6	3,379.8	59.5	15.1
Apparel	2,497.0	38.3	2,186.5	38.4	14.2
Accessories	136.1	2.1	117.3	2.1	16.1
Total	6,522.4	100.0	5,683.6	100.0	14.8

## Group Revenue Breakdown by Brand Nature

The following table sets out the contributions to the Group's revenue by brand nature:

For the six months ended 30 June

	2023 Revenue		2022 Revenue		Change in revenue (%)
	(RMB Million)	(% of Revenue)	(RMB Million)	(% of Revenue)	
Mass market	5,429.6	83.2	4,897.6	86.2	10.9
Athleisure	748.6	11.5	629.5	11.1	18.9
Professional sports	344.2	5.3	156.5	2.7	119.9
Total	6,522.4	100.0	5,683.6	100.0	14.8

The Group's total revenue can be analysed into mass market, athleisure and professional sports. The signature brands are:

Brand Nature	Signature Brands
Mass market	<b>Xtep</b>
Athleisure	<b>K-Swiss, Palladium</b>
Professional sports	<b>Saucony, Merrell</b>

The Group's total revenue for the period amounted to approximately RMB6.5 billion (2022: RMB5.7 billion), which was mainly driven by revenue contributions from mass market's signature brand as a result of orders from distributors, and continual demand for our functional products; revenue contributions from Saucony under professional sports segment as a result of its strong product popularity which translated into retail sales growth including its e-commerce business; revenue growth from athleisure signature brands which contributed to the increase in overall revenue.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Gross Profit and Gross Profit Margin Breakdown by Product Category**

The following table sets out the gross profit and the gross profit margin by product category:

For the six months ended 30 June

	2023		2022		Change in gross profit (%)	Change in gross profit margin (% point)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)		
Footwear	1,622.4	41.7	1,411.1	41.8	15.0	-0.1
Apparel	1,123.3	45.0	936.8	42.8	19.9	2.2
Accessories	51.4	37.8	38.9	33.2	32.1	4.6
<b>Total</b>	<b>2,797.1</b>	<b>42.9</b>	<b>2,386.8</b>	<b>42.0</b>	<b>17.2</b>	<b>0.9</b>

The Group's overall gross profit margin was 42.9% (2022: 42.0%). The increase in the overall gross profit margin was mainly contributed by the increase in demand for its functional products which carried higher profit margins.

**Gross Profit and Gross Profit Margin Breakdown by Brand Nature**

The following table sets out the gross profit and gross profit margin by brand nature:

For the six months ended 30 June

	2023		2022		Change in gross profit (%)	Change in gross profit margin (% point)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)		
Mass market	2,338.2	43.1	2,066.8	42.2	13.1	0.9
Athleisure	314.2	42.0	250.7	39.8	25.3	2.2
Professional sports	144.7	42.0	69.3	44.2	108.9	-2.2
<b>Total</b>	<b>2,797.1</b>	<b>42.9</b>	<b>2,386.8</b>	<b>42.0</b>	<b>17.2</b>	<b>0.9</b>

**Other Income and Gains, net**

For the period, other income and gains of the Group mainly represented by the government grants, which amounted to approximately RMB229.7 million (2022: RMB159.1 million); the income derived from financial investments and term deposits was approximately RMB38.5 million (2022: RMB35.3 million), which was the interest income derived from treasury deposit products. Net fair value loss from convertible bonds amounted to approximately RMB23.8 million (2022: a fair value gain of RMB13.1 million). The increase in other income and gains, net was mainly due to the government grants.

**Selling and Distribution Expenses**

For the period, the Group's selling and distribution expenses amounted to approximately RMB1,510.3 million (2022: RMB1,046.2 million), representing approximately 23.2% (2022: 18.4%) of the Group's total revenue. The increase in selling and distribution expenses of approximately RMB464.1 million was mainly due to the increase in advertising and promotional costs. The advertising and promotional costs for the period amounted to approximately RMB858.9 million (2022: RMB580.9 million), representing approximately 13.2% (2022: 10.2%) of the Group's total revenue. The increase in advertising and promotional costs was mainly due to the Chengdu FISU World University Games sponsorship, appointment of new XTEP Basketball spokespersons, resumption of marathon sponsorships and increase in advertising campaigns.

## MANAGEMENT DISCUSSION AND ANALYSIS

### General and Administrative Expenses

For the period, the Group's general and administrative expenses amounted to approximately RMB636.3 million (2022: RMB656.2 million), which represented approximately 9.8% (2022: 11.5%) of the Group's total revenue. The decrease in general and administrative expenses was mainly attributed to a decrease in staff costs and related expenses of RMB78.5 million; and the decrease was partially offset by the increase in R&D cost. The R&D cost for the period amounted to approximately RMB175.2 million (2022: RMB107.4 million), representing approximately 2.7% (2022: 1.9%) of the Group's total revenue to enrich our functional product offerings and strengthen our leadership in running.

### Net Finance Costs

The total net finance costs of the Group for the period amounted to approximately RMB74.4 million (2022: RMB28.2 million). The increase in net finance costs was mainly due to the increase in interest expense on bank loans amounted to RMB44.1 million (2022: RMB23.0 million) and fair value loss on interest rate swaps amounted to RMB5.4 million (2022: a fair value gain of RMB13.6 million).

### Operating Profit and Operating Profit Margin Breakdown

The following table sets out the contributions to the operating profit and operating profit margin:

For the six months ended 30 June

	2023		2022		Change in	
	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)	operating profit/(loss) margin (%)	operating profit/(loss) margin (% point)
Mass market	1,106.3	20.4	1,007.5	20.6	9.8	-0.2
Athleisure	(66.3)	(8.9)	(53.7)	(8.5)	23.4	-0.4
Professional sports	13.3	3.9	(3.3)	(2.1)	-500.7	6.0
	1,053.3	16.1	950.5	16.7	10.8	-0.6
Corporate	(66.7)	N/A	(28.8)	N/A	131.5	N/A
Total	986.6	15.1	921.7	16.2	7.0	-1.1

The operating profit increased by 7.0% due to the increase in operating profit from mass market segment and professional sports segment offset by the operating losses arising from corporate segment and athleisure segment during the period. The results of corporate segment included the net fair value changes arising from the derivative component of Xtep Convertible Bonds and K-Swiss Convertible Bonds.

### Income Tax Expenses

Income tax provision of the Group for the period was approximately RMB246.3 million (2022: RMB293.3 million). The income tax provision included profit tax provision relating to operating companies, which amounted to approximately RMB232.6 million (2022: RMB224.2 million). Also, there was an over-provision of income tax of approximately RMB3.0 million (2022: RMB5.5 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. In this connection, the Group had provided a provision of withholding tax on undistributed profits amounted to RMB18.2 million (2022: RMB76.0 million) during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Profit Attributable to Ordinary Equity Holders and Net Profit Margin

For the period, the profit attributable to ordinary equity holders was approximately RMB665.4 million (2022: RMB590.4 million), representing an increase of approximately 12.7% over the same period in last year. The increase was mainly due to the increase in operating profit during the period.

The Group's net profit margin remained stable at around 10% (2023: 10.2%; 2022: 10.4%).

### Dividend

The Group maintained a high level of cash and bank balances. The Board continued to maintain high shareholders' dividend return and therefore resolved to distribute an interim dividend of HK13.7 cents per Share (2022: HK13.0 cents per Share). The proposed interim dividend will be offered with a scrip dividend option to the Shareholders, which will allow them to receive new shares of the Company in lieu of cash. Participation in the scrip dividend scheme will be optional. The scrip dividend scheme is subject to the Hong Kong Stock Exchange granting the listing of and permission to deal in the new Shares to be issued pursuant thereto. A circular containing details of this scrip dividend scheme and a form of election, together with this interim report, will be dispatched to the Shareholders.

### Rolling Working Capital Cycle

For the period, the Group's rolling overall working capital turnover days was 88 days (2022: 68 days).

#### For the six months ended 30 June

ROLLING WORKING CAPITAL TURNOVER DAYS	2023 Days	2022 Days	Changes Days
Inventories	107	93	+14
Trade receivables	92	87	+5
Trade payables	111	112	-1
Overall working capital turnover days	88	68	+20

The rolling turnover days for inventories and trade receivables increased by 14 days and 5 days, respectively, and the rolling turnover days for trade payables decreased by 1 day resulting in an increase in rolling overall working capital turnover days by 20 days.

### Bills Receivable

In order to have more flexibilities in utilizing working capital facilities, the Group utilized the acceptance and usage of bills receivable. As of 30 June 2023, the bills receivable amounted to approximately RMB427.4 million (31 December 2022: RMB403.2 million). For the period, the number of turnover days of bills receivable was 12 days (2022: 14 days).

### Bills Payable

As of 30 June 2023, the bills payable amounted to approximately RMB100.0 million (31 December 2022: RMB50.0 million). For the period, the number of turnover days of bills payable was 4 days (2022: 2 days).

## MANAGEMENT DISCUSSION AND ANALYSIS

## Liquidity and Capital Resources

As of 30 June 2023, the Group's cash and cash equivalents amounted to approximately RMB3,730.8 million (31 December 2022: RMB3,414.2 million), representing an increase of approximately RMB316.6 million. The increase in the Group's cash and cash equivalents is summarized as follows:

	Six months ended 30 June	
	2023 RMB million	2022 RMB million
Cash generated from/(used in) operating activities	559.6	(40.3)
Income tax paid	(244.3)	(211.1)
Net interest expenses paid	(50.0)	(17.1)
Net cash flows from/(used in) operating activities	265.3	(268.5)
Decrease in term deposits	200.3	–
Decrease/(Increase) in pledged bank deposits	131.2	(222.4)
Increase in investment in associates	(19.8)	(46.5)
Increase in property, plant and equipment	(40.9)	(197.9)
Increase in deposits paid for the acquisition of property, plant and equipment	(144.7)	(7.0)
Dividends paid	–	(261.4)
Net (repayment of)/proceeds from bank borrowings	(73.5)	345.2
Others	(1.3)	32.3
Net increase/(decrease) in cash and cash equivalents	316.6	(626.2)

The net cash and cash equivalents (including term deposits and pledged bank deposits minus bank borrowings and convertible bonds) were approximately RMB1,177.3 million as at 30 June 2023 (31 December 2022: RMB1,225.7 million).

	30 June 2023 RMB million	31 December 2022 RMB million
Cash and cash equivalents	3,730.8	3,414.2
Bank deposits	715.7	1,047.3
Total bank deposits and bank balances	4,446.5	4,461.5
Less: Bank borrowings	(2,397.7)	(2,423.9)
Less: Convertible bonds	(871.5)	(811.9)
Net cash and cash equivalents	1,177.3	1,225.7

## MANAGEMENT DISCUSSION AND ANALYSIS

As of 30 June 2023, the Group's gearing ratio was 19.7% (31 December 2022: 19.6%), which is defined as the total bank borrowings and convertible bonds divided by the Group's total assets.

As of 30 June 2023, the total assets of the Group amounted to RMB16,623.2 million (31 December 2022: RMB16,493.5 million), represented by non-current assets of RMB4,648.8 million (31 December 2022: RMB4,155.4 million) and current assets of RMB11,974.4 million (31 December 2022: RMB12,338.1 million). The total liabilities of the Group amounted to RMB7,825.7 million (31 December 2022: RMB8,186.8 million), represented by non-current liabilities of RMB1,993.2 million (31 December 2022: RMB1,542.0 million) and current liabilities of RMB5,832.5 million (31 December 2022: RMB6,644.8 million). The total non-controlling interests of the Group amounted to RMB69.1 million (31 December 2022: RMB62.5 million). Hence, the total net assets of the Group amounted to RMB8,797.5 million (31 December 2022: RMB8,306.7 million), representing an increase of 5.9%. Net assets per Share as at 30 June 2023 were approximately RMB3.34 (31 December 2022: RMB3.15), representing an increase of 6.0%.

### Impairment for Trade Receivables

During the period, the Group recorded a write-back of impairment for trade receivables amounted to RMB4.6 million (2022: RMB2.8 million).

### Provision for Inventories

During the period, the Group recorded a write-back of provision for inventories amounted to RMB20.2 million (2022: an impairment provision for inventories amounted to RMB9.3 million).

### Commitments

Details of the Group's commitments are stated in note 24 of the interim financial information.

### Contingent Liabilities

As of 30 June 2023, the Group did not have any material contingent liabilities.

### Charge of Assets

Save as disclosed in notes 15 and 19 of the interim financial information relating to certain amounts of properties and bank deposits pledged to secure certain banking facilities, none of the Group's assets was pledged as at 30 June 2023.

### Foreign Currency Risks

The Group mainly operates in the PRC with most of its transactions settled in RMB. The Group's assets and liabilities, and transactions arising from operation are mainly denominated in RMB. Accordingly, it is believed that the Group does not have any material foreign currency risks that would affect its operation. However, the management team will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

### Interest Rate Risks

Interest on bank borrowings is mainly charged at floating rates. To mitigate the exposures to floating interest rate risk, the Group in 2020 had entered into various interest rate swap contracts at an aggregate notional amount of HK\$1,440 million (equivalent to approximately RMB1,223.3 million) (2022: HK\$1,440 million) with fixed swap rates ranging from 0.88% to 1.18% per annum. As of 30 June 2023, there were no swap contracts remained effective.

### Significant Investments and Material Acquisitions and Disposals of Subsidiaries

During the period, the Group did not have any significant investments or acquisitions or disposals of subsidiaries. No plans have been authorized by the Board for any material investments or additions of capital assets as at the date of this interim report.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Human Resources

As of 30 June 2023, the Group had approximately 9,300 employees (31 December 2022: 9,800 employees), of which 58.2% was production employees (31 December 2022: 57.8%). The Group provides introductory orientation programs and continuous training to its employees. Topics covered included industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of our staff. The Group will strive to strengthen human resources management to provide strong support for the development of its business through staff recruitment initiatives, optimization of the organizational structure and promotion of our corporate culture to ensure that it can maintain sustainable development in the future.

### Non-GAAP Financial Measures for Professional Sports Segment

The following tables set forth the reconciliations of the Group's professional sports segment's non-GAAP financial measures and measures prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRS") for the six months ended 30 June 2023 and 2022, which should be considered when evaluating our performance. We encourage you to review our financial information in its entirety and not rely on a single financial measure:

	For the six months ended 30 June 2023		
	As reported (RMB million)	Adjustments <sup>2</sup> (RMB million)	Non-GAAP (RMB million)
Revenue	344.2	–	344.2
Gross profit	144.7	52.3	197.0
Gross profit margin	42.0%	N/A	57.2%
Operating profit	13.3	5.8	19.1
Operating profit margin	3.9%	N/A	5.5%

	For the six months ended 30 June 2022		
	As reported (RMB million)	Adjustments <sup>2</sup> (RMB million)	Non-GAAP (RMB million)
Revenue	156.5	–	156.5
Gross profit	69.3	20.2	89.5
Gross profit margin	44.2%	N/A	57.2%
Operating loss	(3.3)	(8.7)	(12.0)
Operating loss margin	–2.1%	N/A	–7.7%

#### NOTES:

- The Group owns less than 50% of the share capital of certain operating entities in its professional sports segment and they are accounted for as associates of the Group. As a result, according to the applicable HKFRS, while the Group shall consolidate the results of its subsidiaries on a line-by-line basis, the Group can only recognize the share of results from its associates in its consolidated financial statements through equity method of accounting.

To provide investors with useful supplementary information to assess the performance of the overall operations of the Group's professional sports segment, the management also presents the revenue, gross profit, gross profit margin, operating profit and operating profit margin of the professional sports segment as if all the entities operating the professional sports segment were subsidiaries of a common parent and the financial results were combined on a line-by-line basis, which are not GAAP financial measures.

Nevertheless, the use of these non-GAAP financial measures has limitations as an analytical tool. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, analysis of the Group's financial performance prepared in accordance with HKFRS.

- These represent the adjustments to combine all the entities operating the professional segments as if they were the subsidiaries of a common parent.



# CORPORATE GOVERNANCE AND OTHER INFORMATION

## CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions contained in the Corporate Governance Code throughout the period, except for the deviation from code provision C.2.1 as disclosed below.

Under code provision C.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which are comprised of experienced and high caliber individuals. As at the date of this report, the Board consisted of three executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

## COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code and its code of conduct during the period.

## REVIEW OF INTERIM FINANCIAL INFORMATION

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited interim financial information for the period.

The external auditor of the Group has reviewed the interim financial information for the period in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

## DISCLOSURE OF INTERESTS

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2023, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO). They have notified the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or have otherwise notified the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

## Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company <sup>(1)</sup>
Mr. Ding Shui Po	Founder and beneficiary of a discretionary trust <sup>(2)</sup> / Beneficial interests <sup>(3)</sup>	1,294,741,000	49.10%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust <sup>(2)</sup>	1,230,059,500	46.65%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust <sup>(2)</sup> / Beneficial interests <sup>(4)</sup>	1,231,359,500	46.70%
Mr. Tan Wee Seng	Beneficial interests	283,068 <sup>(5)</sup>	0.01%

Notes:

- (1) It was based on 2,636,716,923 issued Shares of the Company as at 30 June 2023.
- (2) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts.  
  
The Family Trusts (through their controlled companies) indirectly hold 1,230,059,500 Shares in aggregate and therefore each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong is deemed to be interested in 1,230,059,500 Shares of the Company.
- (3) Mr. Ding Shui Po was also beneficially interested in 64,681,500 Shares of the Company.
- (4) Mr. Ding Ming Zhong was also beneficially interested in 1,300,000 Shares of the Company.
- (5) 100,000 of these Shares were issued to Mr. Tan Wee Seng upon the exercise of options granted on 7 December 2011 under the share option scheme adopted by the Company on 7 May 2008. The remaining 180,000 of these Shares were acquired by Mr. Tan on the Hong Kong Stock Exchange. The remaining 3,068 of these Shares were received by Mr. Tan by way of scrip dividends for the 2020 final dividend.

Saved as disclosed above, as at 30 June 2023, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

**Directors' Rights to Acquire Shares or Debentures**

At no time during the period was the Company, its subsidiaries, its holding companies or any subsidiary of such holding companies a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

**Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares**

So far as is known to any Director or chief executive of the Company, as at 30 June 2023, the persons or corporations (other than the Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of Shares interested	Approximate percentage of interest in issued share capital of the Company <sup>(1)</sup>
Group Success	Beneficial interests	1,230,059,500	46.65%
Wan Xing International Holdings Limited	Interests of controlled corporation <sup>(2)</sup>	1,230,059,500	46.65%
Ding Wang Fortune Limited	Interests of controlled corporation <sup>(3)</sup>	1,230,059,500	46.65%
Guan Hong Development Limited	Interests of controlled corporation <sup>(3)</sup>	1,230,059,500	46.65%
Ming Zhong Family Limited	Interests of controlled corporation <sup>(3)</sup>	1,230,059,500	46.65%
UBS Trustees (BVI) Limited	Trustee <sup>(3)</sup>	1,230,059,500	46.65%

Notes:

- (1) It was based on 2,636,716,923 issued Shares of the Company as at 30 June 2023.
- (2) Wan Xing International Holdings Limited is deemed to be interested in the Shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.
- (3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited as the respective trust assets under the Family Trusts.

Each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited, which is in turn held as to 67%, 21% and 12% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 30 June 2023, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### SHARE AWARD SCHEME

The Company has adopted the Share Award Scheme to recognize the contributions by the Group's employees, executives, officers or directors and to give incentives in order to retain them for their continual operation and development and to attract suitable personnel for further development of the Group.

The Share Award Scheme is valid and effective for a period of 10 years from 1 August 2014 (the "Adoption Date") and will expire on 1 August 2024.

The Shares to be awarded under the Share Award Scheme (the "Awarded Shares") will either be acquired by the trustee of the Share Award Scheme (the "Trustee") from the open market or be new Shares allotted and issued to the Trustee under general mandates granted by shareholders of the Company to the directors at general meetings of the Company from time to time, both of which will be settled by cash contributed by the Group. The Trustee will hold the Shares in trust for the awardees until such Shares are vested with the awardees in accordance with the provisions of the Share Award Scheme. The Trustee shall not exercise the voting rights in respect of any Shares held under the trust.

Under the Share Award Scheme, the Board shall not make any further award of Shares which will result in the nominal value of the Shares awarded by the Board under the Share Award Scheme exceeding 5% of the issued share capital of the Company from time to time. The maximum number of Shares which may be awarded to a selected participant under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The vesting of Awarded Shares is subject to conditions and vesting schedules as determined by the Board in its sole discretion. The Awarded Shares will be vested in the respective proportions in accordance with the vesting schedule. The Trustee shall cause the Awarded Shares to be transferred to such selected participant on the vesting date.

The Awarded Shares shall be awarded and vested at no consideration. Vested Awarded Shares will be transferred to the selected participants at no cost save that transaction fees and expenses will be payable by the selected participants as transferees.

During the period, no Awarded Share had been granted under the Share Award Scheme.

Since the Adoption Date and up to the date of this report, a total of 125,000,000 Awarded Shares had been awarded under the Share Award Scheme, representing about 4.74% of the number of Shares in issue as of the date of this report. None of the grantees of the Awarded Shares is a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

The total numbers of Shares which were available for being further awarded under the Share Award Scheme at the beginning and end of the period and the date of this report, and the percentage of the then issued share capital of the Company they represented are as follows:

Date	Number of Shares available for being further awarded	Percentage of the then issued share capital of the Company
1 January 2023	6,835,846	0.26%
30 June 2023	6,835,846	0.26%
Date of this report	6,924,607	0.26%

As of 30 June 2023, there were a total of 66,324,000 outstanding Awarded Shares, details of which are as follows:

Name or category of grantees	Date of grant	Vesting period	Number of Awarded Shares					Outstanding as at 30 June 2023
			Outstanding as at 1 January 2023	Granted during the period	Vested during the period	Forfeited during the period	Lapsed during the period	
Employees	10 January 2017	10 January 2018 to 10 January 2023	280,000	-	(280,000) <sup>2</sup>	-	-	-
	19 March 2021	Note 1	75,000,000	-	(8,676,000) <sup>2</sup>	-	-	66,324,000
Total			75,280,000	-	(8,956,000)	-	-	66,324,000

Notes:

- The Awarded Shares are vested or to be vested in tranches of 10%, 15%, 20%, 20% and 35% of the total on 31 March 2023, 31 March 2024, 31 March 2025, 31 March 2026 and 31 March 2027, respectively. The vesting date of 1,176,000 Awarded Shares which were originally scheduled to be vested on 31 March 2024 had been brought forward to 31 March 2023 with the approval of the Board and the Remuneration Committee in consideration of the contribution of certain selected participants.
- No purchase price was paid upon vesting. The weighted average closing price of the Shares immediately before the date on which the Awarded Shares were vested during the period is HK\$9.81.

Further details of the Share Award Scheme are set out in note 23 to the interim financial information.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 2 September 2019, the Company as borrower entered into a facility agreement (the “Facility Agreement”) with a consortium of nine banks arranged by Hang Seng Bank Limited (“HASE”), The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited and CTBC Bank Co., Ltd. as mandated lead arrangers and bookrunners and HASE as the facility agent, pursuant to which a 4-year term loan facility in the principal amount of HK\$1,800,000,000 (the “Facility”) was made available to the Company on the terms and conditions stated therein.

The Facility is guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreement, among other things, that an event of default will occur if the following undertakings are not complied with and not remedied within 20 days of the earlier of (i) HASE, as the facility agent, giving notice to the Company and (ii) any of the Company or the guarantors named therein becoming aware of the failure to comply:

- (a) Mr. Ding Shui Po will remain as the chairman of the Board;
- (b) Mr. Ding Shui Po will maintain control over the management and business of the Group;
- (c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the “Majority Shareholders”) collectively will continue to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security; or
- (d) the Majority Shareholders collectively will remain to be the single largest shareholder of the Company.

In case of occurrence of an event of default which is continuing, HASE, as the facility agent, may by notice to the Company (a) cancel the whole or any part of the Facility whereupon the whole or relevant part of the Facility shall immediately be cancelled; (b) declare that all or part of the Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement and related documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or (c) declare that all or part of the Facility be payable on demand, whereupon they shall immediately become payable on demand by HASE on the instructions of the majority lenders.

As at 30 June 2023, Mr. Ding Shui Po was an executive Director, the chairman and a controlling Shareholder of the Company. Ms. Ding Mei Qing was an executive Director and a controlling Shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing collectively held indirectly approximately 46.65% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 2.45% of the issued share capital of the Company.

# INDEPENDENT REVIEW REPORT



**To the board of directors of Xtep International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

## Introduction

We have reviewed the interim financial information set out on pages 38 to 69, which comprise the condensed consolidated statement of financial position of Xtep International Holdings Limited and its subsidiaries as at 30 June 2023, and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

### **Ernst & Young**

*Certified Public Accountants*

27/F, One Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

23 August 2023

# INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
<b>REVENUE</b>	5	<b>6,522,437</b>	5,683,580
Cost of sales		<b>(3,725,294)</b>	(3,296,756)
Gross profit		<b>2,797,143</b>	2,386,824
Other income and gains, net	5	<b>336,040</b>	237,198
Selling and distribution expenses		<b>(1,510,268)</b>	(1,046,188)
General and administrative expenses		<b>(636,308)</b>	(656,160)
Operating profit	6	<b>986,607</b>	921,674
Net finance costs	7	<b>(74,356)</b>	(28,228)
Share of profits/(losses) of associates		<b>5,199</b>	(11,110)
<b>PROFIT BEFORE TAX</b>		<b>917,450</b>	882,336
Income tax expense	8	<b>(246,253)</b>	(293,273)
<b>PROFIT FOR THE PERIOD</b>		<b>671,197</b>	589,063
Attributable to:			
Ordinary equity holders of the Company		<b>665,417</b>	590,432
Non-controlling interests		<b>5,780</b>	(1,369)
		<b>671,197</b>	589,063
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	10		
Basic		<b>RMB26.36 cents</b>	RMB23.47 cents
Diluted		<b>RMB25.72 cents</b>	RMB22.50 cents



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2023

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
<b>PROFIT FOR THE PERIOD</b>	<b>671,197</b>	589,063
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE)</b>		
Other comprehensive expense that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Mainland China	<b>(96,664)</b>	(55,851)
Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods:		
Exchange difference on translation of financial statements of the Company	<b>75,222</b>	52,381
Equity investments designated at fair value through other comprehensive income	<b>(17,800)</b>	(6,700)
Income tax effect	<b>2,670</b>	1,005
	<b>(15,130)</b>	(5,695)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<b>60,092</b>	46,686
Other comprehensive expense for the period, net of tax	<b>(36,572)</b>	(9,165)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>634,625</b>	579,898
Attributable to:		
Ordinary equity holders of the Company	<b>628,298</b>	580,169
Non-controlling interests	<b>6,327</b>	(271)
	<b>634,625</b>	579,898

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,358,960	1,367,520
Investment properties		17,704	25,540
Right-of-use assets		699,064	685,516
Goodwill		856,787	830,217
Intangible assets		739,823	722,703
Investments in associates		215,950	190,387
Equity investments designated at fair value through other comprehensive income	14	230,865	248,665
Prepayment, deposits and other asset	13	229,620	84,875
Term deposits	15	300,000	–
<b>Total non-current assets</b>		<b>4,648,773</b>	4,155,423
<b>CURRENT ASSETS</b>			
Inventories	11	2,407,256	2,287,201
Trade receivables	12	3,765,844	3,809,438
Bills receivable	12	427,384	403,175
Prepayments, other receivables and other asset	13	1,225,825	1,370,506
Derivative financial instruments	18	–	5,440
Tax recoverable		1,524	911
Term deposits	15	–	500,349
Pledged bank deposits	15	415,747	546,918
Cash and cash equivalents	15	3,730,800	3,414,156
<b>Total current assets</b>		<b>11,974,380</b>	12,338,094
<b>CURRENT LIABILITIES</b>			
Trade payables	16	2,279,337	2,721,809
Bills payable		100,000	50,000
Other payables and accruals	17	1,206,073	1,425,863
Interest-bearing bank borrowings	19	1,804,561	2,230,924
Lease liabilities		133,458	107,871
Deferred subsidies		577	577
Dividend payable		172,605	–
Tax payable		135,902	107,740
<b>Total current liabilities</b>		<b>5,832,513</b>	6,644,784
<b>NET CURRENT ASSETS</b>		<b>6,141,867</b>	5,693,310
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>10,790,640</b>	9,848,733

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	19	593,105	192,940
Xtep Convertible Bonds	20	415,393	392,356
K-Swiss Convertible Bonds	21	456,124	419,537
Derivative financial instruments	18	85,539	80,841
Lease liabilities		128,660	122,222
Deferred tax liabilities		282,844	310,030
Deferred subsidies		19,052	19,341
Other liabilities		12,437	4,764
Total non-current liabilities		1,993,154	1,542,031
<b>NET ASSETS</b>			
<b>8,797,486</b>			
<b>8,306,702</b>			
<b>EQUITY</b>			
<b>Equity attributable to ordinary equity holders of the Company</b>			
Share capital	22	23,147	23,147
Reserves		8,705,211	8,221,010
<b>Non-controlling interests</b>			
<b>69,128</b>			
<b>8,244,157</b>			
Total equity		8,797,486	8,306,702

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2023

## Six months ended 30 June 2022 (Unaudited)

	Attributable to ordinary equity holders of the Company														
	Notes	Reserves											Non-controlling interests	Total equity	
		Share capital	Share premium account	Capital reserve	Statutory surplus fund	Treasury shares	Share award reserve	Equity component of convertible bonds	Exchange fluctuation reserve	Fair value reserve	Retained profits	Total reserves			Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>At 1 January 2022 (audited)</b>		23,092	1,958,798	118,615	1,067,751	(338,581)	1,840	26,460	(10,953)	62,530	5,019,738	7,906,198	7,929,290	53,149	7,982,439
Profit/(loss) for the period		-	-	-	-	-	-	-	-	-	590,432	590,432	590,432	(1,369)	589,063
Other comprehensive income/(expense) for the period		-	-	-	-	-	-	-	(4,568)	(5,695)	-	(10,263)	(10,263)	1,098	(9,165)
Total comprehensive income/(expense) for the period		-	-	-	-	-	-	-	(4,568)	(5,695)	590,432	580,169	580,169	(271)	579,898
2021 final dividend declared and paid	9(b)	-	-	-	-	-	-	-	-	-	(288,517)	(288,517)	(288,517)	-	(288,517)
Shares issued in lieu of cash dividend		38	40,111	-	-	(13,079)	-	-	-	-	-	27,032	27,070	-	27,070
Transfer to statutory surplus fund		-	-	-	352	-	-	-	-	-	(352)	-	-	-	-
Equity-settled share award arrangement	23	-	-	-	-	25,670	-	-	-	-	-	25,670	25,670	-	25,670
Vesting of awarded shares	23	-	-	-	-	-	(1,802)	-	-	-	1,802	-	-	-	-
Dividend for treasury shares		-	-	-	-	-	-	-	-	-	-	3,538	3,538	-	3,538
<b>At 30 June 2022 (unaudited)</b>		23,130	1,998,909	118,615	1,068,103	(325,990)	38	26,460	(15,521)	56,835	5,326,641	8,254,090	8,277,220	52,878	8,330,098

## Six months ended 30 June 2023 (Unaudited)

	Attributable to ordinary equity holders of the Company														
	Notes	Reserves											Non-controlling interests	Total equity	
		Share capital	Share premium account	Capital reserve	Statutory surplus fund	Treasury shares	Share award reserve	Equity component of convertible bonds	Exchange fluctuation reserve	Fair value reserve	Retained profits	Total reserves			Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>At 1 January 2023 (audited)</b>		23,147	2,016,158	118,615	1,304,344	(311,889)	38	26,460	(145,211)	86,075	5,126,420	8,221,010	8,244,157	62,545	8,306,702
Profit for the period		-	-	-	-	-	-	-	-	-	665,417	665,417	665,417	5,780	671,197
Other comprehensive income/(expense) for the period		-	-	-	-	-	-	-	(21,989)	(15,130)	-	(37,119)	(37,119)	547	(36,572)
Total comprehensive income/(expense) for the period		-	-	-	-	-	-	-	(21,989)	(15,130)	665,417	628,298	628,298	6,327	634,625
2022 final dividend declared	9(b)	-	-	-	-	-	-	-	-	-	(169,644)	(169,644)	(169,644)	-	(169,644)
Deemed acquisition of a non-controlling interest		-	-	-	-	-	-	-	-	-	(256)	(256)	(256)	256	-
Transfer to statutory surplus fund		-	-	-	55,794	-	-	-	-	-	(55,794)	-	-	-	-
Equity-settled share award arrangement	23	-	-	-	-	24,413	-	-	-	-	-	24,413	24,413	-	24,413
Vesting of awarded shares	23	-	-	-	-	2,493	(38)	-	-	-	(2,455)	-	-	-	-
Dividend for treasury shares		-	-	-	-	-	-	-	-	-	1,390	1,390	1,390	-	1,390
<b>At 30 June 2023 (unaudited)</b>		23,147	2,016,158	118,615	1,360,138	(284,983)	-	26,460	(167,200)	70,945	5,565,078	8,705,211	8,728,358	69,128	8,797,486

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2023

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Operating activities:		
Cash from/(used in) operations	559,544	(35,271)
Income tax paid	(244,302)	(211,121)
Net interest expenses paid	(49,989)	(22,061)
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>265,253</b>	(268,453)
<b>NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES<sup>(i)</sup></b>	<b>189,303</b>	(440,887)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES<sup>(ii)</sup></b>	<b>(141,465)</b>	73,205
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>313,091</b>	(636,135)
Cash and cash equivalents at beginning of period	3,414,156	3,929,792
Effect of foreign exchange rate changes, net	3,553	9,920
Cash and cash equivalents at end of period	3,730,800	3,303,577
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	3,730,800	3,303,577

The accompanying notes form part of this interim condensed consolidated financial information.

- (i) Net cash flows from/(used in) investing activities for the reporting period mainly included investment income derived from financial assets at fair value through profit or loss and term deposits of RMB38,471,000 (2022: RMB35,274,000), decrease in pledged bank deposits of RMB131,171,000 (2022: increase in RMB222,370,000), increase in investment in an associate of RMB19,800,000 (2022: RMB46,454,000) and acquisition of items of property, plant and equipment of RMB40,854,000 (2022: RMB197,912,000), increase in deposit paid for the acquisition of property, plant and equipment of RMB144,745,000 (2022: RMB7,037,000), proceeds from disposal of investment properties of RMB26,545,000 (2022: Nil) and net decrease in term deposits of RMB200,349,000 (2022: Nil).
- (ii) Net cash flows from/(used in) financing activities for the reporting period mainly included net repayment of bank borrowings of RMB73,534,000 (2022: net proceed of RMB345,210,000), principal elements of lease payments of RMB61,039,000 (2022: RMB44,730,000). In 2022, there was also a payment of dividends to ordinary equity holders of the Company of RMB261,447,000 apart from scrip shares in lieu of cash.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

## 1. CORPORATE AND GROUP INFORMATION

Xtep International Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The Company’s principal place of business in Hong Kong is located at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

During the period, the Company and its subsidiaries (collectively referred to as the “Group”) were engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products. There were no significant changes in the nature of the Group’s principal activities during the period.

In the opinion of the directors, the ultimate holding company of the Company is Wan Xing International Holdings Limited (“Wan Xing”), which is a limited liability company incorporated in the British Virgin Islands.

## 2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

### 2.1 Basis of preparation

The interim condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The interim condensed consolidated financial information does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2022.

The interim condensed consolidated financial information has been prepared under the historical cost convention, except for bills receivables, financial assets at fair value through profit or loss (“FVPL”), financial assets at fair value through other comprehensive income (“FVOCI”), derivative financial instruments and financial liability at fair value through profit or loss which have been measured at fair value. The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2022 except for the adoption of the new and revised HKFRSs as further detailed in note 2.2 below.

### 2.2 Changes in accounting policies and disclosures

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform — Pillar Two Model Rules</i>

The adoption of the above new and revised HKFRSs had no significant effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the interim condensed consolidated financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

In preparing the interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those used by management in the preparation of the Group's annual financial statements for the year ended 31 December 2022.

### 4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories. For management purposes, the Group is organised into business units based on market segmentation and has three reportable operating segments as follows:

- (a) mass market segment, including signature brand, Xtep;
- (b) athleisure segment, including signature brands, mainly K-Swiss and Palladium; and
- (c) professional sports segment, including signature brands, Saucony and Merrell.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that share of results of associates, bank interest income, finance costs as well as corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude tax recoverable, pledged bank deposits, term deposits, equity investments designated at fair value through other comprehensive income and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, convertible bonds, tax payable, deferred tax liabilities, dividend payable and other unallocated corporate liabilities as these liabilities are managed on a group basis.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

## 4. OPERATING SEGMENT INFORMATION (Continued)

The operating segment information for the six months ended 30 June 2023 and 2022 are as follows:

Six months ended 30 June 2023	Mass market RMB'000 (Unaudited)	Athleisure RMB'000 (Unaudited)	Professional sports RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Segment revenue</b> (note 5)				
Sales to external customers	5,429,670	748,588	344,179	6,522,437
<b>Segment results</b>	1,106,346	(66,320)	13,298	1,053,324
Share of profit of associates	2,665	–	2,534	5,199
Bank interest income				12,716
Finance costs, net				(87,072)
Corporate and other unallocated expenses				(66,717)
<b>Profit before tax</b>				<b>917,450</b>
Six months ended 30 June 2022	Mass market RMB'000 (Unaudited)	Athleisure RMB'000 (Unaudited)	Professional sports RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Segment revenue</b> (note 5)				
Sales to external customers	4,897,571	629,474	156,535	5,683,580
<b>Segment results</b>	1,007,567	(53,748)	(3,320)	950,499
Share of losses of associates	(7,369)	–	(3,741)	(11,110)
Bank interest income				13,862
Finance costs, net				(42,090)
Corporate and other unallocated expenses				(28,825)
<b>Profit before tax</b>				<b>882,336</b>



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**4. OPERATING SEGMENT INFORMATION (Continued)**

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2023 and 31 December 2022, respectively.

	Mass market RMB'000 (Unaudited)	Athleisure RMB'000 (Unaudited)	Professional sports RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>30 June 2023</b>				
Segment assets	12,213,908	2,870,809	280,777	15,365,494
Corporate and other unallocated assets				1,257,659
				<b>16,623,153</b>
Segment liabilities	3,139,683	521,003	156,049	3,816,735
Corporate and other unallocated liabilities				4,008,932
				<b>7,825,667</b>

	Mass market RMB'000 (Audited)	Athleisure RMB'000 (Audited)	Professional sports RMB'000 (Audited)	Total RMB'000 (Audited)
<b>31 December 2022</b>				
Segment assets	11,680,795	2,964,906	266,799	14,912,500
Corporate and other unallocated assets				1,581,017
				<b>16,493,517</b>
Segment liabilities	3,533,641	704,243	158,638	4,396,522
Corporate and other unallocated liabilities				3,790,293
				<b>8,186,815</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**5. REVENUE, OTHER INCOME AND GAINS, NET**

An analysis of revenue and other income and gains, net is as follows:

**(i) Revenue**

Revenue represents the net invoiced value of goods sold during the period, after allowances for returns and trade discounts. The performance obligation is satisfied upon delivery of the sportswear goods and the payment is generally due within 90 to 120 days from delivery, except for new customers, where payment in advance is normally required. Disaggregation of revenue from contracts with customers by product categories is as follows:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
<b>Product categories</b>		
Footwear	3,889,290	3,379,750
Apparel	2,496,985	2,186,526
Accessories	136,162	117,304
	<b>6,522,437</b>	5,683,580

**(ii) Other income and gains, net**

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Government grants*	229,683	159,096
Rental income	8,133	7,969
Royalty income	37,703	14,982
Income derived from financial assets at FVPL and term deposits	38,471	35,274
Dividend income from an equity investment designated at FVOCI	11,438	–
Fair value loss on the derivative component of Xtep Convertible Bonds	(2,022)	(7,620)
Fair value gain/(loss) on K-Swiss Convertible Bonds	(21,777)	20,715
Gain on disposal of investment properties	20,001	–
Gain on disposal of property, plant and equipment, net	937	–
Others	13,473	6,782
	<b>336,040</b>	237,198

\* There are no unfulfilled conditions or contingencies relating to these subsidies.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**6. OPERATING PROFIT**

The Group's operating profit is arrived at after charging/(crediting):

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Advertising and promotional costs	<b>858,939</b>	580,858
Write-back of impairment of trade receivables, net	<b>(4,568)</b>	(2,750)
Provision/(write-back of provision) for inventories	<b>(20,235)</b>	9,305
Research and development costs*	<b>175,210</b>	107,364
Depreciation of property, plant and equipment	<b>57,987</b>	49,864
Depreciation of right-of-use assets	<b>72,175</b>	49,512
Amortisation of intangible assets	<b>7,710</b>	6,937
Staff costs	<b>652,769</b>	677,646
Equity-settled share award scheme expense	<b>24,413</b>	25,670

\* The research and development costs for the six months ended 30 June 2023 included RMB75,458,583 (six months ended 30 June 2022: RMB70,882,123) relating to the depreciation of research and development centres and staff costs for research and development activities, which were also included in the total amounts disclosed above for each of these types of expenses.

**7. NET FINANCE COSTS**

An analysis of net finance costs is as follows:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest expense on bank loans	<b>44,130</b>	23,007
Interest expense on discounted bills receivables	<b>18,575</b>	12,916
Interest expense on Xtep Convertible Bonds	<b>10,044</b>	8,858
Interest expense on lease liabilities	<b>6,374</b>	5,143
Amortisation of bank charges on syndicated loans	<b>2,543</b>	5,769
Fair value loss/(gain), net:		
Derivative instruments — transactions not qualified as hedges (note 18(a))	<b>5,406</b>	(13,603)
Bank interest income	<b>(12,716)</b>	(13,862)
	<b>74,356</b>	28,228

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**8. INCOME TAX**

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Current tax — Overseas		
Charge for the period	<b>232,603</b>	224,200
Over-provision in prior periods	<b>(2,961)</b>	(5,491)
	<b>229,642</b>	218,709
Deferred tax	<b>16,611</b>	74,564
	<b>246,253</b>	293,273

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

## 9. DIVIDENDS

(a) Dividends attributable to ordinary equity holders of the Company during the period:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interim dividend — HK13.7 cents (six months ended 30 June 2022: HK13.0 cents) per ordinary share	<b>332,736</b>	297,110

At the board meeting held on 23 August 2023, the board of directors declared and approved an interim dividend of HK13.7 cents (equivalent to approximately RMB12.6 cents) per ordinary share, totalling approximately HK\$361,473,000 (equivalent to approximately RMB332,736,000), for the six months ended 30 June 2023. The interim dividend will be payable in cash with a scrip dividend alternative. This interim dividend has not been recognised as a liability in the interim condensed consolidated financial information.

At the board meeting held on 23 August 2022, the board of directors declared and approved an interim dividend of HK13.0 cents (equivalent to approximately RMB11.3 cents) per ordinary share, totalling approximately HK\$342,530,000 (equivalent to approximately RMB297,110,000), for the six months ended 30 June 2022. The interim dividend was payable in cash with a scrip dividend alternative. This interim dividend had not been recognised as a liability in the interim condensed consolidated financial information.

(b) Dividends paid/payable to ordinary equity holders of the Company during the period:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Final dividends in respect of the financial years ended: 31 December 2022 — HK\$7.1 cents (payable) (2021 — HK13.5 cents (paid)) per ordinary share	<b>169,644</b>	288,517

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY****(a) Basic earnings per share**

The calculation of basic earnings per share for the six months ended 30 June 2023 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB665,417,000 (six months ended 30 June 2022: RMB590,432,000) and the weighted average number of 2,524,391,519 (six months ended 30 June 2022: 2,515,560,845) ordinary shares in issue during the period as adjusted to reflect the number of treasury shares held under the share award scheme of the Company.

**(b) Diluted earnings per share**

The calculation of diluted earnings per share for the six months ended 30 June 2023 is based on the profit for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest and other related profit or loss effect on the convertible bonds, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of diluted earnings per share are based on:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Profit attributable to owners of the Company, used in the basic earnings per share calculation	<b>665,417</b>	590,432
Add: Fair value loss on Xtep Convertible Bonds	<b>2,022</b>	–
Add: Interest expense on Xtep Convertible Bonds	<b>10,044</b>	–
Less: Fair value gain on K-Swiss Convertible Bonds	–	(20,715)
Effect of dilutive potential ordinary shares arising from adjustment to the share of results of a subsidiary based on dilution of its results per share*	–	10,320
<b>Earnings for the purpose of diluted earnings per share</b>	<b>677,483</b>	580,037

\* Balance represented the decrease in the Group's proportionate interest in the loss of a subsidiary of the Group of RMB10,320,000 assuming all K-Swiss Convertible Bonds were converted into ordinary shares of the subsidiary at the beginning of the period ended 30 June 2022.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (Continued)****(b) Diluted earnings per share (Continued)**

The K-Swiss Convertible Bonds had an anti-dilutive effect on the basic earnings per share amounts presented during the six months ended 30 June 2023 because the diluted earnings per share increased when K-Swiss Convertible Bonds were taken into considerations.

	Number of shares Six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Weighted average number of ordinary shares as used in the basic earnings per share calculation	<b>2,524,391,519</b>	2,515,560,845
Effect of dilution — weighted average number of ordinary shares:		
— Share awards	<b>57,924,243</b>	62,045,887
— Xtep Convertible Bonds	<b>51,750,976</b>	—
Weighted average number of ordinary shares	<b>2,634,066,738</b>	2,577,606,732

**11. INVENTORIES**

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Raw materials	<b>61,172</b>	46,139
Work in progress	<b>193,852</b>	115,685
Finished goods	<b>2,226,885</b>	2,220,265
	<b>2,481,909</b>	2,382,089
Less: Provision for inventories	<b>(74,653)</b>	(94,888)
	<b>2,407,256</b>	2,287,201

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

## 12. TRADE AND BILLS RECEIVABLES

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables		<b>4,166,704</b>	4,214,135
Less: Impairment of trade receivables		<b>(400,860)</b>	(404,697)
	(a)	<b>3,765,844</b>	3,809,438
Bills receivables	(b)	<b>427,384</b>	403,175

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three to four months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a number of diversified customers and, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Notes:

- (a) An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 3 months	<b>2,022,535</b>	2,574,337
3 to 6 months	<b>1,311,191</b>	870,554
6 to 9 months	<b>255,580</b>	212,791
Over 9 months	<b>176,538</b>	151,756
	<b>3,765,844</b>	3,809,438

- (b) The maturity of the Group's the bills receivable at the end of the reporting period is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 3 months	<b>20,684</b>	153,175
3 to 6 months	<b>406,700</b>	250,000
	<b>427,384</b>	403,175



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**13. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSET**

	Note	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Prepayments to contracted manufacturers		132,003	129,315
Deposits and advance payments to suppliers		515,038	520,997
Deposits and advance payments to subcontractors		79,218	104,774
Right-of-return assets		6,928	6,653
Other asset		65,010	65,010
Value added tax ("VAT") recoverable		342,674	415,958
Other receivables	(a)	87,579	143,203
Deposit for acquisition of property, plant and equipment		161,329	–
Other deposits		65,666	69,471
		<b>1,455,445</b>	1,455,381
Less: Non-current portion prepayments, deposits and other assets		<b>(229,620)</b>	(84,875)
		<b>1,225,825</b>	1,370,506

Note:

- (a) Included in the other receivables are amounts due from the associates of RMB2,771,000 (31 December 2022: RMB11,992,000), which are repayable on demand.

**14. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	Note	RMB'000
At 1 January 2023 (audited)		248,665
Changes in fair values	(a)	(17,800)
At 30 June 2023 (unaudited)		230,865

As at 30 June 2023, the Group held three unlisted investments with fair values of RMB196,400,000 (31 December 2022: RMB211,400,000), RMB14,500,000 (31 December 2022: RMB17,300,000) and RMB19,965,000 (31 December 2022: RMB19,965,000), representing 5%, 11% and 0.3% (31 December 2022: 5%, 11% and 0.3%) equity interests in three corporate entities, which were established in the PRC on 22 December 2014, 22 October 2012 and 28 August 2018. During the six months ended 30 June 2023, the Group received dividend of RMB11,438,000 from the unlisted investments.

Note:

- (a) During the six months ended 30 June 2023, fair value loss of RMB17,800,000 (six months ended 30 June 2022: RMB6,700,000) in respect of the Group's equity investments designated at FVOCI were recognised in the interim condensed consolidated statement of comprehensive income.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**15. TERM DEPOSITS, CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS**

	Note	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Term deposits		<b>300,000</b>	500,349
Cash and bank balances		<b>4,146,547</b>	3,961,074
		<b>4,446,547</b>	4,461,423
Less: Pledged bank deposits for:			
— short-term bank loans	19	<b>(415,747)</b>	(546,918)
Non-current term deposits (31 December 2022: Current)		<b>(300,000)</b>	(500,349)
Cash and cash equivalents		<b>3,730,800</b>	3,414,156

At the end of the reporting period, the cash and bank balances and term deposits of the Group denominated in RMB amounted to RMB3,926,353,000 (31 December 2022: RMB3,658,599,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**16. TRADE PAYABLES**

An ageing analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Within 3 months	<b>1,967,132</b>	2,261,452
3 to 6 months	<b>193,297</b>	345,933
Over 6 months	<b>118,908</b>	114,424
	<b>2,279,337</b>	2,721,809

Notes:

- (a) The trade payables are non-interest-bearing and are normally settled within 60 to 120 days.
- (b) Included in the trade payables are amounts due to associates of RMB60,378,000 (31 December 2022: RMB72,461,537) which is repayable on demand.

**17. OTHER PAYABLES AND ACCRUALS**

	Note	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Contract liabilities		<b>117,663</b>	157,889
Refund liabilities		<b>15,441</b>	13,536
Other payables	(a)	<b>357,034</b>	329,450
VAT payables		<b>1,089</b>	2,634
Accruals		<b>714,846</b>	922,354
		<b>1,206,073</b>	1,425,863

Note:

- (a) Included in the other payables were amounts due to associates of RMB2,863,000, which was repayable on demand as at 31 December 2022. There were no amounts of similar nature as at 30 June 2023.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

## 18. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Derivative financial assets/(liabilities):			
— Interest rate swap	(a)	—	5,440
— Xtep Convertible Bonds early redemption options	20	<b>(85,539)</b>	(80,841)
		<b>(85,539)</b>	(75,401)
Analysed into:			
Non-current liabilities		<b>(85,539)</b>	(80,841)
Current assets		—	5,440

Note:

- (a) The Group entered into various interest rate swap (“IRS”) contracts with a creditworthy financial institution with an aggregate notional amount of HK\$1,440,000,000 (equivalent to RMB1,327,680,000) for certain of its floating-interest rate loans denominated in Hong Kong dollars to manage its exposure to interest rate fluctuations for the period from 2020 to 2023.

The IRS contracts were not designated for hedging purposes and were measured at fair value through profit or loss. A fair value loss of the IRS contracts amounting to RMB5,406,000 (six months ended 30 June 2022: fair value gain of RMB13,603,000) were recognised to the interim condensed consolidated income statement during the six months ended 30 June 2023.

There were no swap contracts remained effective as at the end of the reporting period.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

## 19. INTEREST-BEARING BANK BORROWINGS

	Notes	30 June 2023 (Unaudited)			31 December 2022 (Audited)		
		Effective interest rate per annum	Maturity	RMB'000	Effective interest rate per annum	Maturity	RMB'000
<b>Current</b>							
Syndicated loan	(a)	Hong Kong Inter-bank Offered Rate ("HIBOR")+1.52%	2023	1,164,258	HIBOR+1.52%	2023	1,286,252
Revolving loans	(b)	HIBOR+1.1%	2023 to 2024	410,290	HIBOR+1.1% to HIBOR+1.2%	2023	924,566
Mortgage loans	(c)	4.05%	2023 to 2024	20,013	4.05%	2023	20,106
Other bank loans	(d)	2.95% to 3.20%	2023 to 2024	210,000	–	–	–
				<b>1,804,561</b>			<b>2,230,924</b>
<b>Non-current</b>							
Mortgage loans	(c)	4.05%	2024 to 2031	183,105	4.05%	2024 to 2031	192,940
Other bank loans	(d)	2.50% to 3.20%	2024 to 2026	410,000	–	–	–
				<b>593,105</b>			<b>192,940</b>
				<b>2,397,666</b>			<b>2,423,864</b>

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Analysed into:		
Within one year or on demand	<b>1,804,561</b>	2,230,924
In the second year	<b>41,352</b>	20,928
In the third to fifth years, inclusive	<b>459,442</b>	68,063
Beyond five years	<b>92,311</b>	103,949
	<b>2,397,666</b>	<b>2,423,864</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**19. INTEREST-BEARING BANK BORROWINGS (Continued)**

Notes:

- (a) The syndicated loan is supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK\$1,800,000,000 (equivalent to approximately RMB1,659,600,000) (31 December 2022: HK\$1,800,000,000 (equivalent to approximately RMB1,607,940,000) as at the end of the reporting period.
- (b) The revolving loans are supported by:
- (i) the pledge of certain of the Group's deposits amounting to RMB415,747,000 (31 December 2022: RMB546,918,000) in aggregate; and
  - (ii) corporate guarantees provided by wholly-owned subsidiaries of the Company to the extent of HK\$1,275,000,000 and RMB85,000,000 (equivalent to approximately RMB1,175,550,000 and RMB85,000,000 respectively) (31 December 2022: HK\$1,275,000,000 and RMB85,000,000 (equivalent to approximately RMB1,138,958,000 and RMB85,000,000 respectively)) as at the end of the reporting period.
- (c) The mortgage loan was supported by a mortgage over a building and respective leasehold land under right-of-use assets of the Group with an aggregate carrying amount of RMB409,358,000 (31 December 2022: RMB419,922,000).
- (d) The other bank loans are supported by corporate guarantees provided by a wholly-owned subsidiary of the Company to the extent of RMB1,150,000,000 (31 December 2022: Nil).

**20. XTEP CONVERTIBLE BONDS**

The Xtep Convertible Bonds were issued on 9 September 2021. The movements of the liability component, equity component and embedded derivative of the Xtep Convertible Bonds during the six months ended 30 June 2023 are as follows:

	Liability component RMB'000	Equity component RMB'000	Embedded derivative RMB'000
At 1 January 2023 (audited)	392,356	26,460	80,841
Interest expense	10,044	–	–
Fair value loss (note 5)	–	–	2,022
Exchange difference	12,993	–	2,676
At 30 June 2023 (unaudited)	415,393	26,460	85,539

(note 18)

**21. K-SWISS CONVERTIBLE BONDS**

The K-Swiss Convertible Bonds were issued on 9 September 2021. The movement of the K-Swiss Convertible Bonds during the six months ended 30 June 2023 is as follow:

	RMB'000
At 1 January 2023 (audited)	419,537
Fair value loss (note 5)	21,777
Exchange difference	14,810
At 30 June 2023 (unaudited)	456,124

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**22. SHARE CAPITAL****At 30 June 2023**

	HK'000 (Unaudited)	RMB'000 (Unaudited)
Authorised: 100,000,000,000 ordinary shares of HK\$0.01 each	<b>1,000,000</b>	<b>935,629</b>
Issued and fully paid: 2,636,716,923 ordinary shares of HK\$0.01 each	<b>26,367</b>	<b>23,147</b>

**At 31 December 2022**

	HK'000 (Audited)	RMB'000 (Audited)
Authorised: 100,000,000,000 ordinary shares of HK\$0.01 each	1,000,000	935,629
Issued and fully paid: 2,636,716,923 ordinary shares of HK\$0.01 each	26,367	23,147

**23. SHARE AWARD SCHEME**

On 1 August 2014, the board of directors of the Company (the "Board") adopted a share award scheme as a mean to recognise the contributions by the key management personnel and to give incentives in order to retain them for their continual operation and development and to attract suitable personnel for further development of the Group (the "Share Award Scheme").

The Share Award Scheme is valid and effective for a period of 10 years from 1 August 2014 (the "Adoption Date"). The shares to be awarded under the Share Award Scheme (the "Awarded Shares") will either be acquired by the trustee of the Share Award Scheme (the "Trustee") from the open market or be new shares allotted and issued to the Trustee under general mandates granted by shareholders of the Company to the directors at general meetings of the Company from time to time, both of which will be settled by cash contributed by the Group. The Trustee will hold the Awarded Shares in trust for the awardees until such shares are vested with the awardees in accordance with the provisions of the Share Award Scheme. The Trustee shall not exercise the voting rights in respect of any shares held under the trust.

The Board shall not make any further award of Awarded Shares which will result in the nominal value of the Shares awarded by the Board under the Scheme exceeding 5% of the issued share capital of the Company from time to time. The maximum number of Shares which may be awarded to a selected participant under the Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The vesting of shares awarded to the awardees is subject to conditions and vesting schedules as determined by the Board in its sole discretion.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**23. SHARE AWARD SCHEME (Continued)**

The shares granted will be vested in the respective proportions in accordance with the vesting schedule. The Trustee shall cause the Awarded Shares to be transferred to such selected participant on the vesting date. Vested shares will be transferred to the selected participants at no cost save that transaction fees and expenses will be payable by the selected participants as transferees.

On 19 March 2021, the Board resolved to grant 75,000,000 Awarded Shares to certain selected participants, who are employees of the Group, and are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them at nil consideration. As at 30 June 2023, there were a total of 66,324,000 outstanding Awarded Shares.

Details of the outstanding Awarded Shares as at 30 June 2023 are as follows:

Grant date	Number of Awarded Shares to vest	Vesting period	Fair value at grant date HK\$ per share
19 March 2021	10,074,000	19 March 2021 to 31 March 2024	3.55
19 March 2021	15,000,000	19 March 2021 to 31 March 2025	3.39
19 March 2021	15,000,000	19 March 2021 to 31 March 2026	3.23
19 March 2021	26,250,000	19 March 2021 to 31 March 2027	3.06

Movements in the number of Awarded Shares during the reporting period were as follows:

	Number of Awarded Shares
Outstanding as at 1 January 2022	89,790,000
Awarded Shares vested	(14,510,000)
Outstanding as at 31 December 2022 and 1 January 2023	75,280,000
Awarded Shares vested	(8,956,000)
Outstanding as at 30 June 2023 (unaudited)	66,324,000

During the six months ended 30 June 2023, share award scheme expense of RMB24,413,000 (six months ended 30 June 2022: RMB25,670,000) was recognised in the interim condensed consolidated income statement.

During the six months ended 30 June 2023, an amount of RMB38,000 (six months ended 30 June 2022: RMB1,802,000) was transferred from share award reserve to retained profits and an amount of RMB2,493,000 (six months ended 30 June 2022: Nil) was transferred from retained profits to treasury shares reserve in respect of vesting of 8,956,000 (six months ended 30 June 2022: 14,510,000) Awarded Shares.



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**24. COMMITMENTS**

The Group had the following capital commitments at the end of the reporting period:

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Contracted for commitments in respect of:		
— construction of new buildings	<b>496,359</b>	519,583
— construction of new manufacturing facilities	<b>3,061</b>	1,079
— advertising and promotional expenses	<b>148,779</b>	231,083
— acquisition of property, plant and equipment	<b>134,388</b>	–
	<b>782,587</b>	751,745

**25. RELATED PARTY TRANSACTIONS**

(a) In addition to the transactions detailed elsewhere in this interim condensed consolidated financial information, the Group had the following material transactions with related parties during the reporting period:

- (i) The Group entered into several lease arrangements with Hu Du Century (Xiamen) Investment Management Co., Ltd., a company established in the PRC and a wholly-owned subsidiary of Wan Xing. The lease arrangements were accounted for under HKFRS 16 *Leases*.

The associated transactions and balances are disclosed below:

	<b>Six months ended 30 June</b>	
	<b>2023 RMB'000 (Unaudited)</b>	2022 RMB'000 (Unaudited)
Rental payment	<b>5,596</b>	5,671
Depreciation of right-of-use assets	<b>5,204</b>	5,601
Interest expenses on lease liabilities	<b>416</b>	607

  

	<b>As at 30 June 2023 (Unaudited)</b>	As at 31 December 2022 (Audited)
Right-of-use assets	<b>17,192</b>	17,655
Lease liabilities	<b>17,807</b>	19,186

- (ii) During the six months ended 30 June 2023, purchases amounting to RMB197,564,000 (six months ended 30 June 2022: RMB85,028,000) were made by the Group from associates of the Group according to the published prices and conditions offered by the associates to their major customers.

These transactions were entered into by the Group and its related companies in accordance with the terms of the respective agreements.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

### 25. RELATED PARTY TRANSACTIONS (Continued)

- (b) Outstanding balances with related parties:

Details of the Group's other receivable and trade and other payable balances with the associates are disclosed in notes 13, 16 and 17 to the interim condensed consolidated financial information, respectively.

### 26. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 30 June 2023, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB1,003,000,000 (31 December 2022: RMB1,142,000,000) to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from approximately 30 days to 167 days (31 December 2022: 20 days to 180 days) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the six months ended 30 June 2023, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (six months ended 30 June 2022: Nil). No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The bills receivable of RMB1,003,000,000 (six months ended 30 June 2022: RMB734,000,000) has been discounted during the six months ended 30 June 2023.

### 27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, trade and bills payables, financial assets included in other receivables, financial liabilities included in other payables and accruals and the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of non-current term deposits and non-current portion of interest-bearing bank borrowings and Xtep Convertible Bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings and Xtep Convertible Bonds as at 30 June 2023 were assessed to be insignificant. The fair values of non-current term deposits and non-current portion of interest-bearing bank borrowings approximate to their carrying amounts as at the end of the reporting period.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)**

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of bills receivable has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The key observable inputs in the valuation are time to expiration and risk free rate. The fair values of bills receivable approximate to their carrying amounts as at the end of the reporting period. In respect of the interest rate swap, the Group relied on bank valuations to determine the fair value of the instruments. These valuations maximise the use of observable market data. Key observable inputs in the valuations are floating rates, fixed rates, time to expiration and discount rate. The fair value of Xtep Convertible Bonds early redemption options and K-Swiss Convertible Bonds have been estimated using Binomial models of which key observable inputs is risk free rate. The valuation required the directors to determine the equity value based on discounted cash flow and the discount rate. The fair value of the unlisted equity investments designated at fair value through other comprehensive income have been estimated using the quoted price of the latest transactions or a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry and geography, and to calculate an appropriate price multiple, such as price to net book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the net book value per share of the comparable company by the market price per share. The trading multiple is then discounted for considerations such as marketability between the comparable companies based on company-specific facts and circumstances.

The discounted multiple is applied to the corresponding P/B multiple of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the interim condensed consolidated statement of comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS  
(Continued)**

Below is a summary of significant unobservable inputs to the valuation of unlisted equity investments, Xtep Convertible Bonds early redemption options and K-Swiss Convertible Bonds with a quantitative sensitivity analysis as at 30 June 2023:

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted equity investments	Market multiples	P/B multiple of peers	30 June 2023: 0.20x to 1.10x (31 December 2022: 0.16x to 1.11x)	5% (31 December 2022: 5%) increase/decrease in multiple would result in increase/decrease in fair value by RMB10.5 million (31 December 2022: RMB11.4 million)
		Discount for lack of marketability ("DLOM")	30 June 2023: 20% (31 December 2022: 20%)	2.5% (31 December 2022: 2.5%) increase/decrease in DLOM would result in decrease/increase in fair value by RMB6.6 million (31 December 2022: RMB7.1 million)
Xtep Convertible Bonds early redemption option	Binomial model	Discount rate	30 June 2023: 7.0% (31 December 2022: 7.0%)	0.5% (31 December 2022: 0.5%) increase/decrease in discount rate would result in increase in fair value by RMB7.2 million (31 December 2022: RMB6.6 million)/ decrease in fair value by RMB7.4 million (31 December 2022: RMB6.8 million)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS  
(Continued)

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
K-Swiss Convertible Bonds	Binomial model	Weighted average cost of capital ("WACC")	30 June 2023: 14.4% (31 December 2022: 14.5%)	0.5% (31 December 2022: 0.5%) increase/decrease in WACC would result in decrease in fair value by RMB13.3 million (31 December 2022: RMB12.2 million)/ increase in fair value by RMB19.4 million (31 December 2022: RMB13.4 million)
		Volatility	30 June 2023: 41.7% (31 December 2022: 41.0%)	0.5% (31 December 2022: 0.5%) increase/decrease in volatility would result in increase in fair value by RMB1.1 million (31 December 2022: RMB0.5 million)/decrease in fair value by RMB0.8 million (31 December 2022: RMB0.8 million)
		Discount rate	30 June 2023: 11.7% (31 December 2022: 12.2%)	0.5% increase/decrease in discount rate would result in decrease in fair value by RMB5.1 million (31 December 2022: RMB5.1 million)/ increase in fair value by RMB5.3 million (31 December 2022: RMB5.2 million)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS  
(Continued)****Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

**Assets measured at fair value:****As at 30 June 2023**

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Equity investments designated at FVOCI	–	–	230,865	230,865
Bills receivable	–	427,384	–	427,384
	–	427,384	230,865	658,249

As at 31 December 2022

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Derivative financial instruments	–	5,440	–	5,440
Equity investments designated at FVOCI	–	–	248,665	248,665
Bills receivable	–	403,175	–	403,175
	–	408,615	248,665	657,280

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

**27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)****Liabilities measured at fair value:****As at 30 June 2023**

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Derivative financial instruments	–	–	85,539	85,539
K-Swiss Convertible Bonds	–	–	456,124	456,124
	–	–	541,663	541,663

As at 31 December 2022

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Derivative financial instruments	–	–	80,841	80,841
K-Swiss Convertible Bonds	–	–	419,537	419,537
	–	–	500,378	500,378

During the six months ended 30 June 2023, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2022: Nil).

**28. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 23 August 2023.

# INFORMATION FOR INVESTORS

## Information for Investors

### Share information

Company name: Xtep International Holdings Limited

Listing: Hong Kong Stock Exchange

Stock code: 1368

Listing date: 3 June 2008

Board lot size: 500 shares

Number of issued shares as at 30 June 2023:

2,636,716,923

Market capitalization as at 30 June 2023:

HK\$21,041,001,046

Index constituent:

- Hang Seng Composite Index Series
- MSCI China Index
- MSCI Emerging Market Index
- MSCI All Country Far East Ex Japan Index

Basic earnings per Share for the six months ended 30 June 2023:

- RMB26.36 cents

Interim dividends per Share:

- HK13.7 cents with a scrip dividend option

### Key dates for investors

23 August 2023

2023 interim results announcement

7 to 11 September 2023

Closure of the register of shareholders for determination of interim dividend entitlement (both days inclusive)

30 October 2023

Payment of interim dividends

### Registrar & transfer offices

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## GLOSSARY

In this interim report, unless the context otherwise requires, the following terms shall have the following meanings:

“Board”	The Board of Directors of the Company
“Company”	Xtep International Holdings Limited
“Corporate Governance Code”	The Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Director(s)”	The director(s) of the Company
“Group”	The Company and its subsidiaries
“Group Success”	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, and is wholly owned by Wan Xing International Holdings Limited, which is in turn ultimately owned as to 67% by Mr. Ding Shui Po’s family trust, 21% by Ms. Ding Mei Qing’s family trust and 12% by Mr. Ding Ming Zhong’s family trust
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“K-Swiss Convertible Bonds”	the convertible bonds in an aggregate principal amount of US\$65,000,000 with zero coupon issued by Xtep Global Investment Limited to GSUM VII Holdings Limited
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“PRC” or “China” or “Mainland China”	The People’s Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
“R&D”	Research and development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Award Scheme”	The share award scheme of the Company adopted on 1 August 2014

## GLOSSARY

“Shareholder(s)”	Shareholder(s) of the Company
“U.S.”	United States of America
“Xtep”	Xtep brand
“Xtep Convertible Bonds”	the 6-year convertible bonds with interest at 1.8% per annum in an initial aggregate principal amount of HK\$500,000,000 issued by the Company to GSUM IV Holdings Limited
“Xtep Kids”	The children’s sportswear business of the Group

[www.xtep.com.hk](http://www.xtep.com.hk)

